

CALIFORNIA ENERGY RESOURCES CONSERVATION  
AND DEVELOPMENT COMMISSION  
ENERGY EFFICIENCY COMMITTEE

JOINT COMMITTEE WORKSHOP  
INFORMAL PROCEEDINGS AND PREPARATION OF THE  
2003 INTEGRATED ENERGY POLICY REPORT  
Docket No. 02-IEP-01

CALIFORNIA ENERGY COMMISSION  
HEARING ROOM A  
1516 NINTH STREET  
SACRAMENTO, CALIFORNIA

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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

A P P E A R A N C E S

COMMITTEE MEMBERS PRESENT

James D. Boyd, Commissioner, Presiding Member

William J. Keese, Commissioner, Associate Member

John L. Geesman, Commissioner

STAFF PRESENT

Rick Buckingham, Advisor to Commissioner Keese

Melissa Jones, Advisor to Commissioner Geesman

Susan Bakker, Advisor to Commissioner Boyd

Al Alvarado, Project Manager

David Vidaver

Judy Grau

Don Kondoleon, Transmission Program Manager

ALSO PRESENT

Les Guliassi, PG&E

Alvin Pak, Semptra Energy

Joe Sparano, WSPA

Gary Schoonyan, Southern California Edison

Kent Hampton, Marathon

Steven Kelly, IEP

Lorenzo Kristov, California ISO

Joseph Klobardanz, Southern California Edison

Barry Flynn, Flynn RCI

A P P E A R A N C E S (continued)

ALSO PRESENT

Mohamed J. Beshir, LADWP

Eric Eisenman, PG&E

Mark J. Skowronski, Solargenix Energy

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## P R O C E E D I N G S

CHAIRMAN BOYD: I've let the customary

ten minutes go by for late arrivers, including my Associate Member of the Committee, Chairman Keese, who had a little plumbing dilemma at his residency this morning. So he'll be here momentarily. We're going to go ahead and not keep you waiting any longer.

Welcome to all of you to another in our continuing series of what have been public workshops and public hearings, leading us to the preparation of the Commission's Integrated Energy Policy Report, which is due to the Legislature by this November.

Today's Committee Hearing is on electricity and natural gas assessment, the draft report by the staff of the Commission. For those of you who can't see, the long distance up here, the placard, I'm Jim Boyd, I'm Chairman of this Sub-Committee of the Commission on the Integrated Energy Policy Report, the Presiding Member.

And as I indicated, the Associate Member is Chairman Keese, who will be with us shortly. Also with us today, and very welcome, is Commissioner Geesman, who sits with me on some of

1 our committees, and sits on a number of others  
2 that are very relevant to this subject. So I  
3 welcome the Commissioner and his interest in this  
4 subject.

5 Also, on my left, my Advisor, Susan  
6 Bakker. On my immediate right, Rick Buckingham,  
7 the Advisor to the Chairman. And on Commissioner  
8 Geesman's right, Melissa Jones, his Advisor. We'd  
9 all like to welcome you here to this hearing.

10 Today's hearing, right now we begin what  
11 is noticed as a possibly or definitely a two-day  
12 review of the staff's draft of Electricity and  
13 Natural Gas Assessment Report. This Report was  
14 posted to the CEC's website on August 8th.

15 Printed copies have been available, and  
16 printed copies are available on the table in the  
17 lobby, including all the subsidiary reports,  
18 which, as I weigh it and measure it, is very bulky  
19 and very large.

20 And if you put it all in one binder, as  
21 my secretary did, it's heavy to carry around. In  
22 any event, the material is all there should you  
23 like it, and if you don't like it leave it there  
24 at the end of the day, we'll use it for something  
25 else.

1           The subsidiary reports include the  
2 following, what we call outlook reports, on energy  
3 demand, retail electricity prices, comparative  
4 costs for new central station generation. We have  
5 assessment reports, assessments of the natural gas  
6 market, the transmission system, and the state's  
7 gas-fired generating plants.

8           We have a proposal on resource adequacy  
9 requirements, and also the 2003 Environmental  
10 Performance Report. So there are a host of  
11 reports, as I indicated.

12           Last week, as many of you know, we held  
13 a hearing, this Committee did, on transportation  
14 fuels. And day after tomorrow, this Thursday,  
15 we'll have a public hearing on what we call the  
16 Public Interest Energy Strategy Report. So over  
17 the course of these two weeks we will have held  
18 hearings on all the main reports that will  
19 comprise the Integrated Energy Policy Report.

20           The purpose of today's hearing is to  
21 receive public inputs, public comments that the  
22 Committee and the Commissioners will take under  
23 consideration, which will assist the Committee in  
24 formulating and developing policy on electricity  
25 and natural gas infrastructure and policy issues.

1           These policy recommendations will go  
2   into the final Integrated Energy Policy report, as  
3   indicated earlier due to the Governor in November  
4   of this year. And after that, the Governor then  
5   has the opportunity to review, comment, and  
6   ultimately forward the report to the Legislature.

7           The Committee today is interested in  
8   comments on the major findings in the Electricity  
9   and Natural Gas Report, and in your suggested  
10   options for addressing electricity and natural gas  
11   problems.

12           And I am aware that a series of  
13   questions were distributed and posted on the  
14   website to try to give all of you an idea of what  
15   kind of information we were looking for, to give  
16   you some guidance on the issues we'd like to have  
17   some input on.

18           I'd like to keep this forum as informal  
19   as possible, despite the very formal setting that  
20   the permanent structure of this room forces on us  
21   sometimes. And the few requirements that we have  
22   to help us facilitate clear communication for  
23   everyone here, and others listening to the audio  
24   webcast -- and I did want to point out, these  
25   proceedings are audio webcast.



1           So there will be some instructions about  
2   using microphones and so on and so forth. Staff  
3   will be making a brief presentation, summarizing  
4   the Electricity and Natural Gas Report, and after  
5   that we'll open things up to the audience for  
6   comments, questions, any other presentations that  
7   folks might want to make.

8           If you would like to speak we ask that  
9   you fill out a blue card -- and I don't have a  
10   sample here to show you, but there are blue cards  
11   on the table in the back of the room, the standard  
12   practice of the Commission. And leave these cards  
13   on the desk, which will be collected and sent up  
14   here to us, so we can call on you at the  
15   appropriate time.

16          We ask that each speaker please step up  
17   to the microphone, begin by stating your name and  
18   affiliation. Later on, if you have a business  
19   card, that will help our transcriber spell your  
20   name and your affiliation correctly, if you would  
21   provide him a copy.

22          We are tape-recording the dialogue  
23   today, partly to create a record of our work, and  
24   primarily to capture comments, evaluations, ideas  
25   and suggestions to help us with these proceedings.

1           Today, as I indicated, we will focus  
2   primarily on electricity and transmission issues.  
3   Tomorrow we probably will drift over more into the  
4   natural gas area, but we have not posted a  
5   specific agenda, other than making one available  
6   today relative to this hearing. So we will hear  
7   from everybody who wants to testify today.

8           No matter when we get done today, we  
9   will be here tomorrow, because we posted a hearing  
10  for tomorrow, so we will have to at least open a  
11  hearing, and anyone who couldn't make it today  
12  will be available tomorrow to provide testimony.

13          Depending on the number of cards, and  
14  how much testimony we get, will determine how long  
15  we will go today. We've set aside the day, but it  
16  could be a shorter day.

17          I would like to take this opportunity  
18  for the Committee to acknowledge that over the  
19  course of these days, weeks, and months now, we've  
20  received a lot of input, and we appreciate very  
21  much that a great deal of public input and a great  
22  deal of public involvement has already occurred.

23          A lot of your time has been invested in  
24  the material that the staff utilized for the draft  
25  reports that we're hearing about in the course of

1 the hearings last week and this week.

2 From February through July 13 workshops  
3 have been held, most of which addressed the topics  
4 that are included in the Electricity and Natural  
5 Gas Report. And I'm speaking specifically of  
6 these two subjects.

7 And again, I'd say, as we go through the  
8 day, we are anxious that you share with us your  
9 comments on the concerns that are important to  
10 you, or that you feel are important to the state.  
11 Again, I'll make reference to the 21 questions  
12 related to this report which the staff has  
13 generated and which I know are on the back table.

14 And with that, Commissioner Keese not  
15 being here, I can't turn to him for any comments,  
16 so Commissioner Geesman, if there is anything  
17 you'd like to say now would be an appropriate  
18 time?

19 COMMISSIONER GEESMAN: No thank you,  
20 Commissioner.

21 COMMISSIONER BOYD: Thank you. Well,  
22 with that then I'd like to introduce Al Alvarado,  
23 who's standing at the dais over there. He's the  
24 Project Manager for this Electricity and Natural  
25 Gas Assessment Report. And Al will take over and

1 provide the staff presentation.

2 MR. ALVARADO: Thank you, Commissioner.

3 I'll get the right setting here. My name is Al  
4 Alvarado, I am the Project Manager of this draft  
5 Electricity and Natural Gas Assessment Report.  
6 I've had the privilege of working with a good  
7 number of staff in preparation of this draft  
8 report, as well as the many supporting technical  
9 staff reports that are also up in front.

10 We have over about 1,100 pages in that  
11 stack of reports, so I only plan on hitting some  
12 of the highlights that was presented in the draft  
13 report. I'm assuming most of you have already  
14 read all that material.

15 I'm going to just touch on the focus of  
16 the report, a little bit about the integrated  
17 nature of both electricity and natural gas  
18 systems, a little bit of the demand outlook, which  
19 sort of sets the foundation for conducting the  
20 rest of our supply adequacy evaluations. Our  
21 supply adequacy outlook, and some of the  
22 infrastructure implications.

23 The focus of the report, as specified by  
24 Senate Bill 1389, asked the Commission to cover a  
25 number of different areas. In this report we're

1 to provide an overview of major energy trends and  
2 issues facing California.

3 This includes the supply, demand, price,  
4 reliability issues, and efficiency. We are also  
5 to assess the impacts of these trends and issues  
6 on public health and safety, the economy, the menu  
7 of resources available to California as well as  
8 the implications to the environment.

9 Related to the environment, there is a  
10 specific section calling for an assessment of the  
11 environmental performance of the electric  
12 generation facilities in the state.

13 We're also to identify the potential  
14 problems or uncertainties associated with  
15 electricity and natural gas markets.

16 So the report provides the findings of  
17 expected energy infrastructure developments, and  
18 analysis of the implications that a number of  
19 these important uncertainties may present.

20 The goals of the report, then, is to  
21 identify those key factors that may stress the  
22 energy infrastructure. We're also to determine if  
23 there may be a need for any additional development  
24 so we can mitigate the potential supply shortfalls  
25 in the next decade.

1           And considering that electricity  
2   generation is the largest user of future natural  
3   gas demand, our studies focus on the potential  
4   stresses to the natural gas fuel system.

5           And to support all this analysis  
6   Commissioner Boyd had sort of listed out the many  
7   different reports that feed into our analysis,  
8   ranging from the Environmental Performance Report  
9   down to a study on aging natural gas power plants  
10   in California, to try and give you a framework of  
11   understanding potential retirement concerns.

12           When we talk about integrated energy  
13   markets we're finding that the growing role of  
14   natural gas as the fuel of choice for electric  
15   generation has implications on how the natural gas  
16   system operates, and the question is regarding the  
17   gas infrastructure, how it must be designed and  
18   operated for the future.

19           Both markets exist to serve our  
20   population and economy, so they are affected by  
21   the same economics, weather, new technologies and  
22   economic growth.

23           Common markets mean that risks and  
24   uncertainties are also linked, so these risks  
25   include risks associated with natural

1 developments, with physical supply, the demand  
2 growth, any temperature variations that will  
3 affect demand, and any of the weather variations.

4           They also include the human aspects like  
5 market design, regulatory uncertainty and social  
6 preferences on how to mitigate these risks. Also,  
7 any decisions for one element of the market will  
8 also have an integrated consequence in the other.

9           For example, a decision to add natural  
10 gas storage can affect what consumers will pay for  
11 electricity. Conversely, the development of  
12 renewable generation or electricity demand  
13 reductions can influence the demand foreign price  
14 of natural gas.

15           On energy demand trends, a reliable  
16 assessment of the amount, location, and timing of  
17 demand growth is essential to evaluate the options  
18 that can best target California's energy needs.

19           What we're finding is, over the next  
20 decade we're expecting that California will add  
21 about five million people to its current  
22 population of about 35 million.

23           Three-quarters of electricity growth is  
24 expected -- as well as all of our natural gas  
25 growth -- will be driven primarily by the need to

1     serve these new citizens.

2                 Commercial growth, which is spurred by  
3     the state economic expansion, will be the largest  
4     user of incremental electricity. Given these  
5     population trends, this sort of translates into  
6     approximately 10,000 megawatts, which includes  
7     reserves of generation or demand reducing  
8     resources that will be needed to serve this growth  
9     in the state economy.

10                I'm not saying that this is how much new  
11     generation we need, since we already at this point  
12     have a surplus of generation capacity. 80 percent  
13     of the residential energy growth is from adding  
14     new homes, and only 20 percent of the growth is  
15     caused by new end uses.

16                Three-fourths of the commercial demand  
17     growth is due to business expansion, which  
18     translates into more floor space used by  
19     businesses. And about one-fourth reflects greater  
20     per unit energy use.

21                Regarding the industrial sector,  
22     improved productivity has led to greater  
23     electricity use per employee, such that the  
24     contributions of the manufacturing to the gross  
25     state product grew twice as fast as the commercial



1 sector.

2 Just setting the highlights here, I mean  
3 we have one whole report that does talk about our  
4 demand growth trends for each of the sectors, and  
5 sort of gives you much of the specifics of these  
6 points.

7 A final point, too is that California  
8 uses electricity far more efficiently than other  
9 western states and the U.S. as a whole, as shown  
10 in this slide, where we compare the per capita  
11 electricity used for California, western United  
12 States minus California, as well as the U.S.

13 The horizontal -- the vertical bars that  
14 we have over here just sort of reflects the  
15 downturn in the state economy, just so you can  
16 note a few trends where demand has declined during  
17 some of these periods.

18 But for the most part, the per capita  
19 used for electricity has been rather steady over  
20 the years.

21 This chart shows our, not only just the  
22 historical snapshot of electricity consumption,  
23 but also contains our electricity demand forecast.

24 And we've developed three different  
25 scenarios, the base case scenario, which is the

1 blue line with the diamonds reflects our general  
2 assumptions of the eventual rebound of the  
3 economy.

4           The purple bar up on top is our high  
5 demand, where we're expecting an advanced,  
6 accelerated rebound economy, and then we have our  
7 lower growth demand scenario.

8           Historically, annual growth electricity  
9 consumption in non-recession years has averaged  
10 about 2.8 percent. The base case forecast between  
11 2003 and 2008 is about 1.4 percent. The high  
12 economic growth scenario between 2003 and 2008  
13 increases at 2.7 percent, which is typical in  
14 post-recession periods.

15           This chart just generally shows the  
16 annual percentage change in electricity sales. It  
17 just shows that it's not exactly a steady increase  
18 from year to year, but it sure has fluctuated up  
19 and down. The outline bars shows the annual  
20 percentage change for each of the years, our  
21 forecasted years.

22           Another thing to note about demand,  
23 particularly in the west and in California, is  
24 that demand definitely varies by day as well as by  
25 season. This is just a typical pattern of daily

1 peak demand for one whole year.

2 The narrow band in-between the chart  
3 there is a summer sample. I believe this might be  
4 2001 peak fluctuations. What's notable out of  
5 this chart is that electricity use varies wildly  
6 from time of day and time of year.

7 In a typical day use increases 60  
8 percent from the early morning low to afternoon  
9 high. And when we get into the summer months this  
10 swing is as much as 85 to 90 percent. The peak  
11 electricity demand needles up in the summer due  
12 mostly to air conditioning loads.

13 Another notable aspect about  
14 California's demand patterns is what happens from  
15 year to year, depending on temperature variations.  
16 This chart shows historical peak demand over the  
17 previous years, but also includes our demand  
18 forecast, taking different probabilities of  
19 temperature variations.

20 So the blue bar represents a typical  
21 average year, one of two probability. The cross  
22 hatch bars is, you know, if you have a hotter than  
23 average year, one in five probability. One in  
24 ten, a very hot year, and then one in 40,  
25 definitely quite a bit hotter.

1           What we're finding is that the demand  
2    difference between a average summer day and the  
3    probability of a one in ten hotter peak day is  
4    about 6.1 percent. This difference is over three  
5    times the amount of new demand added each year.

6           So I think it's a significant  
7    uncertainly and risk that we must factor in when  
8    we do our resource evaluations.

9           This variable load requires a generation  
10   system that is, the bottom line is that we need an  
11   extremely flexible system to be able to  
12   accommodate these types of demand fluctuations  
13   that occur from year to year as well as day by  
14   day.

15          Regarding natural gas demand. Natural  
16   gas demand growth is actually a lot slower than  
17   electricity, mostly because there's not many new  
18   uses of natural gas. Furthermore, energy  
19   efficiency in new homes and gas appliances have  
20   really improved over the years.

21          Industry is a heavy user of natural gas,  
22   but those industries that use natural gas are not  
23   really expanding in California, at least we're not  
24   expecting it to expand. Total California gas  
25   demand then, overall, will grow about eight

1 percent between 2003 and 2010.

2 Three-fifths of this increase will come  
3 from power generation. This is the point I was  
4 trying to make earlier, about how integrated the  
5 gas and electricity system really is.

6 If electricity generation gas use were  
7 to be held constant at the 2003 level we'd find  
8 the demand for natural gas over the state would  
9 only grow at four percent. So, following the  
10 trend for electric generation, that's pretty  
11 important for our long-term outlook for both  
12 electricity and the gas infrastructure.

13 Now, getting to our current market  
14 situation. Over the last several years quite a  
15 bit of new generation has been developed in  
16 California. Between 2000 and 2002 we saw about  
17 almost 5,500 megawatts of new generation located  
18 in California in just 2003 alone, over 4,100  
19 megawatts of new generation.

20 This trend is not only just in  
21 California, but we're finding the same thing has  
22 occurred throughout the whole western United  
23 States. The 6,600 megawatts of new generation  
24 additions throughout the west does not include the  
25 California editions.

1           So we're finding that reserve margins  
2   have increased significantly throughout the whole  
3   west. I think the levels are similar to what we  
4   had back in the 80's.

5           Given all this new generation  
6   development, we did a short-term assessment on the  
7   supply adequacy of the generating system. This  
8   chart includes our outlook for the available  
9   generation. This already factors in expected  
10  forced outages. We also include firm contracts,  
11  the net additions you'll find.

12           Like in 2004 there's a negative as well  
13  as in 2006. This is sort of net after we also  
14  include retirements on top of some of the new  
15  additions.

16           If we take an average summer demand  
17  trend in these early years we see that we have  
18  pretty healthy project operating reserves all the  
19  way out to 2008, but if we consider the  
20  uncertainty and probability of a hotter summer,  
21  we'll see that, let's say in 2006 we have a six  
22  percent operating reserve, just inching slightly  
23  below the seven percent minimum operating  
24  criteria.

25           2007, 2008, this sort of infers that

1 we're approaching a need for new generation in  
2 California or load management type of programs to  
3 try to keep our supply adequacy in balance.

4 In addition to your statewide outlook,  
5 we also find that there are local liability  
6 concerns. Both San Diego and San Francisco  
7 Peninsula have reliability problems. Both areas  
8 are characterized by limited generation within  
9 their electrical boundary, limited by transmission  
10 capacity to access resources outside of those  
11 boundaries.

12 For San Diego there is a need for at  
13 least 100 megawatts of new capacity by 2006, and  
14 another additional 100 megawatts in 2007. For San  
15 Francisco there is also going to be a need for new  
16 generation or transmission upgrade through 2006.

17 As for the natural gas outlook, over the  
18 past three years pipeline expansions and additions  
19 have made pipeline capacity sufficient to serve  
20 California's needs through 2006. Beyond this date  
21 annual average capacity is adequate, but there is  
22 a concern related to the peak day conditions that  
23 could require further expansion.

24 Another area of concern is increase in  
25 gas demand in Arizona and New Mexico could absorb

1 a significant amount of the gas that could have  
2 otherwise been delivered to serve southern  
3 California.

4 There's also natural gas storage  
5 concerns that could add a degree of vulnerability  
6 to the system. This vulnerability is due to what  
7 were -- typically in the past natural gas used to  
8 peak during the winter time to serve our heating  
9 loads. Now, with the increase of natural gas-  
10 fired generation there is increasing demand for  
11 natural gas during the summer.

12 So gas that was typically stored  
13 throughout parts of the year in order to save up  
14 for the winter heating system is now being  
15 diverted to meet the gas demand during the summer.

16 So these two seasonal peaks challenges  
17 the industry and its ability to ensure a reliable  
18 supply throughout the year. I think it's just one  
19 of the issues that we need to highlight and keep  
20 watch over.

21 As for environmental performance, most  
22 of the findings are found in the 2003  
23 Environmental Performance Report. There is a  
24 general trend of improved system performance.  
25 There is significant regional generation sector



1 and environmental impacts that we do see will  
2 continue.

3 Air emissions -- we find that there is a  
4 significant decline in air emissions in a region-  
5 wide basis. I know that there are still some  
6 local concerns that we need to pay attention to.

7 Water and aquatic habitats impacts also  
8 continue to be a concern. Biological resource  
9 impacts will vary by sector. And one of the  
10 findings in the Environmental Performance Report  
11 is, despite the increase of natural gas use during  
12 the crisis, it did increase emissions, but it did  
13 not cause any major environmental health effects.

14 The Environmental Performance Report  
15 also talks about tradeoffs. And these tradeoffs  
16 are basically trying to look at the balance  
17 between human health effects versus the ecology  
18 and societal preferences of the resource  
19 selections versus cost.

20 This is sort of the vision we're going  
21 to take in evaluating risk analysis. For example,  
22 from the hydro system there are no emissions. It  
23 provides low cost power. However, there is  
24 concerns regarding the damage to water sheds.

25 On coastal repowering, we're talking

1 about low emissions, re-use of the existing  
2 infrastructure, but there are cooling impacts, and  
3 the usual visual aesthetic concerns too.

4 Transmission links to regional energy  
5 resources does impact communities and biological  
6 resources. Questions regarding imports, are there  
7 any regional inequities. Questions concerning the  
8 environmental impacts associated with the  
9 generation located out of state.

10 So, we didn't get into the choices of  
11 the future. We're finding that, with the supply  
12 adequacy outlook, things are okay for the next  
13 several years, but we do need to take a forward  
14 look.

15 California now has time to fashion its  
16 basic infrastructure in ways that will meet  
17 multiple public interests.

18 We're finding that, if we don't have an  
19 energy policy to guarantee resource adequacy, you  
20 know, we may once again confront the types of high  
21 prices and outages, by 2007, that did occur in the  
22 past several years.

23 Given the lags in bringing new  
24 generation and transmission resources online, or  
25 building up demand reductions by changing consumer

1 investments, this acquisition of additional  
2 resources should commence by 2004.

3 We're just suggesting that we really  
4 ought to sort of brace down and come up with a  
5 good plan to be able to address our long-term  
6 resource concerns.

7 In the report we highlighted a number of  
8 different policy areas to watch. So, meeting our  
9 resource needs requires dependable construction  
10 and operation of thermal plants. We're also  
11 talking about consideration of renewable  
12 generation, as well as demand side management  
13 programs.

14 One of the other IEPR supporting  
15 reports, the Public Interest Energy Strategies  
16 Report, does cover a lot of the renewable as well  
17 as demand side management programs. It tries to  
18 list the factors that will go into consideration  
19 of those possible options for meeting our future  
20 resource needs.

21 There are also several proceedings and  
22 activities underway to restore electricity  
23 infrastructure. This is occurring at some of the  
24 other state agencies, such as the PUC and the  
25 Resource Procurement Proceeding, and activities at

1 the Independent System Operator were suggesting  
2 that we really ought to keep an eye in seeing how  
3 this progresses.

4           You know, it holds a lot of promise for  
5 bringing in a lot of preferred renewable and  
6 demand-side management programs. Depending on  
7 this progress then we can see what really will be  
8 needed to make up the rest of the deficit for this  
9 system.

10           So uncertainly in power plant long-term  
11 contracts, financing, permitting, construction,  
12 uncertainties in demand-side management program  
13 development, implementation impacts, all of this  
14 must be analyzed and be accounted for ahead of  
15 time.

16           I think, having been here in this  
17 Commission for a long time, working on past  
18 electricity reports, I sort of approach this from  
19 our old resource planning perspective of trying to  
20 look forward to figure out really what is needed,  
21 what are the uncertainties and risks associated  
22 with all these options.

23           Other policy areas to watch is  
24 retirements. I know there's been many questions  
25 brought up about concerns of retirements. There's

1     so much uncertainly there. We are taking a look  
2     at some of these older facilities.

3             We find some of these facilities are  
4     located in local reliability areas. So they are  
5     needed, and will likely continue to operate until  
6     there are some replacements, but still that  
7     remains one of the uncertainties that we need to  
8     consider in our analysis.

9             Future transmission planning and  
10    permitting. Must ensure that the transmission  
11    system is upgraded while protecting local quality  
12    of life. Later on today we'll have a discussion  
13    on transmission and we'll also have a staff  
14    presentation on some of our findings in our  
15    transmission report.

16            We talked already about natural gas  
17    concerns. Not only are we talking about expanding  
18    overall supply whether it's by pipeline. I know  
19    that there's LNG proposals out there too that can  
20    help our overall supply situation, but we also  
21    must look at source needs to address the double  
22    peak problem.

23            Environmental impacts is always going to  
24    remain an area of concern. We'll be looking at  
25    the potential impacts of not just the existing

1 system, but also associated with new transmission  
2 lines, natural gas pipelines, and other generation  
3 projects.

4 With that, that is my quick recap of  
5 what's included in the staff draft, which is the  
6 Natural Gas Assessment Report. Those reports do  
7 cover a whole host of different areas. We get  
8 into our price forecasts for electricity and  
9 natural gas projections on electricity retail  
10 rates too.

11 I didn't think I'd really get into the  
12 detail there, I'm assuming most of you already are  
13 quite familiar with our work there. With that,  
14 I'm open for any general questions. I do have a  
15 lot of my supporting troops over here if there are  
16 any particular questions that I really can't  
17 answer.

18 COMMISSIONER BOYD: Any questions from  
19 folks at the dais here?

20 COMMISSIONER GEESMAN: I have one. In  
21 the report itself you indicate the enormous swing  
22 of hydro and its impact in California, from a high  
23 of 45 percent in 1983 to a low of 12 percent in  
24 2001. And I presume those percentages are in  
25 terms of gigawatt hours of energy.

1           Could you explain the approach that  
2   you've taken in terms of modeling for hydro  
3   variation, and what the rationale for the approach  
4   you've taken is?

5           MR. ALVARADO: I'll defer to our  
6   resource planning expert.

7           MR. VIDAVER: Oh, thank you. David  
8   Vidaver, V-i-d-a-v-e-r, Energy Commission staff.  
9   I'll limit my discussion to California hydro  
10   values, the procedure for using modeling in the  
11   northwest is pretty much the same.

12           We have 25 years of hydro data that is  
13   distributed by powerhouse by month. We use median  
14   values for each of these hydro plants in  
15   California for each month, and then if necessary  
16   true those up to come up with an accurate or an  
17   annual total that matches the median annual total  
18   over the 25-year period.

19           The model itself dispatches the hydro  
20   energy in one of two ways, depending on whether  
21   the facility has pondage or is simply limited to  
22   run a river. Run a river is simply distributed  
23   evenly.

24           The gigawatt hours that the plant are  
25   capable of generating are divided by 744 or 720

1 depending on the month, so there's an equal amount  
2 of output over every hour of the month.

3 For facilities with pondage, historic  
4 data is used by the vendor who supplies us the  
5 software that we use. They tell us what share of  
6 the energy generated each month by a specific  
7 power plant is run a river.

8 And that share of energy is allocated  
9 equally over all hours of the month. The  
10 remaining energy is dispatched according to  
11 California loads. It's a peak shaving technique.

12 All power plants generate the pondage  
13 portion of their energy during the peak hour until  
14 such time that it is no longer the peak hour. The  
15 residual demand is equal to that which exists in  
16 another hour, and then the energy is generated by  
17 the peaking plants over those two hours until a  
18 third hour comes into play.

19 So finally all the dispatchable hydro  
20 energy is generated in such a way as to levelize  
21 peak loads across that month.

22 COMMISSIONER GEESMAN: Did you construct  
23 an adverse hydro scenario?

24 MR. VIDAVER: For the Electricity and  
25 Natural Gas Report I believe we constructed an



1 adverse scenario in which the hydro, the total  
2 hydro energy produced in the WEEC was on a I  
3 believe one in 15 year basis, roughly corresponded  
4 to 1992.

5 So we took the -- I believe it was 1992,  
6 I can't swear to it -- we took the actual hydro  
7 generation, both in California and the northwest  
8 in 1992 and pushed that through the model.

9 COMMISSIONER GEESMAN: And did you  
10 publish those results? I don't see that in the  
11 report.

12 MR. VIDAVER: I believe it's in one of  
13 the precursors to the report, one of the documents  
14 that was published I believe in June.

15 COMMISSIONER GEESMAN: Okay. Thank you.

16 COMMISSIONER BOYD: Any other questions  
17 up here? Al, I just want to share a couple of  
18 comments. One, I came here to listen to folks in  
19 the audience and learn, so I'll probably have more  
20 comments at the end of all this.

21 But, as a person who has been shadowing  
22 gas very closely, I'm still not as reassured as I  
23 infer from our report that the future is rosy.  
24 The comments about gas pipeline adequacy, okay I  
25 can accept that.

1           The concern I have is what about the gas  
2   to fill the pipelines, and that remains a concern,  
3   and hopefully we'll hear more about that in the  
4   course of these two days of discussion.

5           So I'm just sharing that with folks,  
6   that I personally have a concern about their being  
7   adequate gas supplies to fill the pipeline's  
8   capacity that we seem to have a sufficiency of for  
9   the near future anyway.

10          The other is just a comment, and that is  
11   you ran various scenarios, and I found with great  
12   interest the seemingly very positive results that  
13   you got from the second scenario as you call it in  
14   the presentation where higher demand-side  
15   management renewable impact scenario really does  
16   seem to add goodly amounts of peak reduction, thus  
17   saving generation needs.

18          And by the same token, increasing  
19   renewables save us even more in the gas arena, and  
20   overall you found a fairly significant gas  
21   reduction from running that scenario, so I just  
22   post the fact that that's an intriguing analysis  
23   that certainly tickles my interest, and be  
24   interested in hearing how other people feel about  
25   this if they do comment.

1           So I just put that on the record. The  
2 last thing I want to say before opening the floor  
3 up to questions. Well, a couple of comments, just  
4 for the audience's benefit.

5           The agenda for today, which was only  
6 available today, says there will be staff  
7 presentation on transmission a little later this  
8 morning, so staff is attempting to have us talk  
9 about electricity and natural gas to some degree,  
10 although electricity fairly heavily this morning.

11          And so some of you may or may not want  
12 to save your comments until after the transmission  
13 update is given.

14          Secondly, I want to thank and commend  
15 all the state agencies who have been working with  
16 our staff for these many, many months on this  
17 subject.

18          The staff has had a working group with  
19 every conceivable state agency which would have a  
20 view, a role, an impact on energy in California,  
21 and several of their representatives are here in  
22 the audience, and are free to comment at any point  
23 in time, but I just want to publicly thank the  
24 diligence of the staff and the state agencies in  
25 trying to collectively address these issues.

1           It's really going to be nice to see  
2 government try to speak with one voice on these  
3 many, many topics. So I thank the various state  
4 agencies.

5           With that, according to the agenda that  
6 I've been provided, there is an opportunity now  
7 for any of those state agencies to get up and make  
8 some comments before I go to the blue cards and  
9 just call on the audience.

10          So is there anyone from our sister  
11 agencies that have been working on this that would  
12 like to say anything on this? Now is a good  
13 opportunity. Seeing nothing, I'm going to then  
14 move to blue cards.

15          Now it's going to be a little tough,  
16 because many of you may not have known the  
17 protocol for today. I'm not sure I did until I  
18 walked in the room. And I'm not sure when it is  
19 you feel you'd like to speak.

20          So I'm just taking a calculated guess  
21 here in terms of when it's appropriate to call for  
22 folks. And anyone's welcome to come back  
23 throughout the two days and add more on any of the  
24 subjects.

25          But for those of you who weren't

1 specific as to day, time, place or subject, your  
2 subject is getting called on right now. So with  
3 that, I'm just going to go to the cards. Les  
4 Guliassi of PG&E was very non-specific, so he gets  
5 to lead off.

6 MR. GULIASI: I'm glad to be able to  
7 participate in this process. PG&E really hasn't  
8 been as active as I would have liked for the last  
9 several years. We did participate in many of the  
10 workshops and we did submit comments at the  
11 appropriate time, and I'm hoping that we will now  
12 have a greater role here at the Commission.

13 I first want to compliment the staff for  
14 assembling such a massive amount of high-quality  
15 work in the various reports. The sheer volume of  
16 material is actually quite impressive. For me at  
17 least it was a daunting task to wade through all  
18 the materials and come up with some constructive  
19 remarks to make today.

20 I talked to some of you kind of off-line  
21 about this, but the difficulty I have is, when  
22 you take all the information that went into the  
23 compilation of these reports you're left with a  
24 very high-level you know kind of set of policy  
25 remarks and recommendations.

1           What we see here is a summary and a  
2    compilation of all the workshops, the stakeholder  
3    processes, the comments, and when you get to the  
4    high level it's really hard to kind of take  
5    something away and be as constructive as I'd like.

6           I think the questions that you posed on  
7    the website yesterday helped to frame the  
8    discussion today, but they were posted less than  
9    24 hours ago, and it's hard to kind of work those  
10   questions and responses into the remarks here.  
11   I'd be happy to address any specifics if they come  
12   up over the course of the two days.

13           I hate to say this, and I hate to use a  
14    cliche, but I'm afraid that the devils lie in all  
15    the details. And I'm hoping we have the  
16    opportunity to write some useful comments to you  
17    in the coming days.

18           I guess what I want to do is address one  
19    or two general issues here, and I think it would,  
20    they would be addressing the first question that  
21    you posed in yesterday's website comments or  
22    questions. And that question was "has the report  
23    captured the major policy issues?"

24           I think from a technical standpoint by  
25    and large the answer is yes. I think the staff

1 did an exceptional job at identifying the key  
2 issues, the key uncertainties, and laying out for  
3 everybody, for the state, the key questions that  
4 face us when we look at infrastructure development  
5 for the state of California.

6 But what I wanted to do was just take a  
7 step back for a moment, and give you something to  
8 think about in terms of ideas that you might add  
9 to these reports as you move forward and finalize  
10 them before final publication and adoption.

11 I think I'm going to reserve my remarks  
12 on the transmission issue until you have the staff  
13 presentation this afternoon.

14 But I think if you take a look at a  
15 couple of case studies, transmission planning  
16 being one of them, and resource procurement in the  
17 financial markets as a second, I think that you  
18 can use, there's some useful lessons there in  
19 studying those two topics that might give you some  
20 other ways of framing some of the questions in the  
21 report, in the final report.

22 Again, taking a step backwards. I think  
23 the CEC's IEPR process, guided by and mandated by  
24 the Legislature, is a good first start for the  
25 state to address well-needed infrastructure and

1 development in the state.

2 And I think the joint agency Energy  
3 Action Plan, as a blueprint and as a statement of  
4 shared goals by the regulatory agencies, is also a  
5 very good start.

6 But what I think is missing from this  
7 report is kind of a reality check on, you know,  
8 the broader context. And we're still in a state  
9 of flux, we're just emerging from the energy  
10 crisis.

11 And I think more than anything we still  
12 need a picture, a blueprint, for restoring order,  
13 stability and predictability for the state's  
14 infrastructure development. We still have  
15 multiple agencies doing multiple things, not  
16 always in concert.

17 We have this agency, we have the CPUC,  
18 and then we also have the ISO. And I think again  
19 the ISO is critical here when we talk about  
20 transmission planning.

21 When you had the joint meeting about a  
22 month ago, early this month, on the Energy Action  
23 Plan, I addressed a couple of issues that I'd like  
24 to repeat here.

25 In this kind of mixed up regulatory



1 process we have, what we find a lot is that we  
2 don't have agencies issuing clear, decisive,  
3 definitive, decisions. What I find is that we  
4 don't have the agencies issuing decisions that are  
5 properly sequenced.

6 I don't think there are good handoffs  
7 from one agency to the next. We also don't have  
8 very consistent decisions across agencies.  
9 Sometimes we find ourselves looking for guidance  
10 from one to the other. We feel that there's  
11 cross-fire and we're kind of caught in the middle.

12 I think the agencies need to do a better  
13 job of cross-referencing each other's decisions to  
14 give some clarity to participants. We also need  
15 more timely decisions.

16 I think what we find is that the  
17 decisions that come out of the Commissions conform  
18 to a regulatory timetable, but they don't conform  
19 to the timetable of the marketplace, they don't  
20 conform to the timetable of the broader economy.

21 So I think we need regulatory decisions  
22 that are grounded better, in the broader real-  
23 world environment of the economy and the  
24 marketplace. And I think we need a much less  
25 litigious and more collaborative process.

1           I think that your process, at the Energy  
2 Commission, is much more collaborative than at say  
3 the Public Utilities Commission. I think the  
4 joint Energy Action Plan is a good guiding  
5 principle for greater collaboration, not only  
6 among the agencies but with stakeholders as well.

7

8           But I think we really need to strive  
9 more clearly toward a less litigious and more  
10 collaborative process.

11           My company is still in chapter 11  
12 bankruptcy. We are close to emerging from that  
13 state, but we really need to focus on what we need  
14 to do as a state to ensure that the utilities  
15 return to some kind of financial health, and that  
16 we retain a credit-worthy status, and that we can  
17 sustain that credit-worthy status and that  
18 financial health for the long term.

19           I think the planning that we do in this  
20 state oftentimes is just-in-time resource  
21 planning. And I think we have to move toward the  
22 long view, and I think your process, quite  
23 frankly, does help us get started on that path.

24           I just wanted to make a couple of  
25 remarks about resource adequacy, resource

1 procurement. This, I find, is one of the most  
2 important areas for you to give some thought, and  
3 to address some issues in your final report.

4 As we know, there is a proceeding  
5 underway at the Public Utilities Commission that  
6 is to establish policies and cost recovery for the  
7 utilities getting back in the procurement role.  
8 There are still a lot of questions that are  
9 unaddressed, unresolved.

10 We're, you know, I guess one of the  
11 basic questions is what role will the utilities  
12 play going forward. Will they play a resource  
13 acquisitions role, or will we get back in the  
14 business of actually building power plants back to  
15 the future?

16 That's a very tough question. It's not  
17 going to be resolved overnight. My company is now  
18 just struggling with that question. And we're  
19 studying it and we're analyzing that question.  
20 And it's unclear at this moment where we're going  
21 to end up.

22 If we're going to become, once again,  
23 the builders of generation, or we'll just become  
24 the acquirers of the resources on behalf of our  
25 customers. But investment-grade status is

1 critical, it's the first condition that needs to  
2 be met.

3 We have a lot of these questions out  
4 there. We have, I believe, a viable independent  
5 power producer market. And we have to address  
6 what role the utilities play, what role the IPP's  
7 play in that market.

8 And I don't think, at this point, in the  
9 proceeding at the Public Utilities Commission, or  
10 as reflected in your report, we're kind of  
11 grappling with those questions, and I think we're  
12 not fully understanding what the financial markets  
13 require, and what the financial markets are  
14 looking for in California with respect to clear  
15 and decisive decisions by the regulatory agencies,  
16 and until there's a track record developed here in  
17 the state where the financial markets can view  
18 California with some certainly and some  
19 predictability we're not going to have a viable  
20 IPP market, we're not going to have a viable  
21 utility role, and we're just going to be kind of  
22 doing planning just in time.

23 I just want to leave you with one  
24 thought. When I was thinking about this -- again,  
25 this might be premature because tomorrow we're

1 going to address gas -- but if you think back  
2 about a decade ago, in the early 90's, think about  
3 what was happening in the state of California with  
4 respect to interstate pipeline capacity,  
5 notwithstanding the question that you just posed a  
6 minute ago, Commissioner Boyd, with respect to  
7 perhaps there's enough capacity, now you're  
8 concerned about filling the pipes with supply.

9 But if you think about it, back a year  
10 ago there were many different pipelines that were  
11 beginning to compete, and there were some in the  
12 state that wanted to have a very heavy-handed form  
13 of regulation, determining and dictating who would  
14 win and who would lose.

15 I think ultimately the state, with the  
16 help of this Commission, when Dick Bilas was here,  
17 I think helped influence policy such that the  
18 regulators kind of pulled back and kept their  
19 hands off and allowed the market to decide what it  
20 should do with respect to adding new pipeline  
21 capacity in the state.

22 And I think what happened is we did  
23 enough, pipeline capacity was added, and it wasn't  
24 done through the heavy-handed kind of regulation.  
25 It was done through letting those companies and

1 letting the market decide. And I think that might  
2 serve as a good model as we go forward and think  
3 about its application to the electricity sector.

4 With that, I think that concludes my  
5 remarks. And again, if there are issues that come  
6 up during the course of the day on some of the  
7 specific questions, I'd be happy to address them.

8 COMMISSIONER BOYD: Thank you, and  
9 indeed please feel free to comment at any time.  
10 Any comments or questions? And I'll reshuffle  
11 your card into the transmission and other stack  
12 here, Les. I need my glasses here. Alvin Pak  
13 from Semptra.

14 MR. PAK: Commissioner, I have a copy of  
15 a presentation. I don't know if you want to  
16 follow along while I give it?

17 COMMISSIONER BOYD: That'd be fine.

18 MR. PAK: I have copies I can leave at  
19 the back table. I also have comments on the gas  
20 report, the transmission report, I don't know if  
21 you want me to give you all of those comments at  
22 the same time, or if you want me to break this  
23 into three different pieces. I can do it either  
24 way, I'll be here both days.

25 COMMISSIONER BOYD: You pose a very

1 difficult, I'm struggling with the idea of parsing  
2 this down into little pieces visavis just hearing  
3 from folks, because there's actually people in the  
4 audience who are going to be limited in their time  
5 and availability who probably ought to be privy to  
6 a whole cross-section of things, so I'm going to  
7 give you license to talk about the whole thing if  
8 you choose to.

9 MR. PAK: All right. For the record, my  
10 name is Al Pak, I'm the Director of Regulatory  
11 Policy and Analysis for the Sempra Energy Global  
12 Enterprise business units. Just by way of  
13 introduction, the Global Enterprise business units  
14 are the fun side of Sempra Energy Corporation.

15 We are the merchant sisters to our more  
16 serious minded brethren at the Sempra Energy  
17 utility companies, which are San Diego Gas &  
18 Electric and Southern California Gas Company.

19 COMMISSIONER BOYD: I've got to  
20 remember that.

21 MR. PAK: They probably have  
22 participated much more extensively in these  
23 proceedings than we did. There are basically four  
24 major lines of business at Sempra Energy Global  
25 Enterprises.

1           Semptra Energy Resources, which is an  
2   independent power producer and power plant  
3   developer. We are co-owners of the Elk Hill  
4   project near Bakersfield. We recently received a  
5   certificate from this commission to develop the  
6   Palomar Power Project in San Diego County. We  
7   also have a number of power plants that are coming  
8   into operation or that are in operation, ready to  
9   serve California's energy needs.

10           There is also the Semptra Energy  
11   International Business unit. This is the company  
12   that runs our international energy operations, and  
13   is the developer and operator of our proposed LNG  
14   terminal projects, both foreign and domestic.

15           We also have Semptra Energy Solutions,  
16   which is a retail energy service provider  
17   operating in 14 states and Canada. And finally we  
18   have Semptra Energy Trading, which is our wholesale  
19   energy trader and metal trading unit, based in  
20   Stamford, Connecticut and London, England.

21           First of all, I want to follow the  
22   comments of Mr. Guliassi, and we put this forth,  
23   congratulations for the staff on a very fine  
24   report. The work and thought that went into these  
25   reports is self-evident. This is becoming a



1 source book for understanding the California  
2 market at the Global Enterprise business unit.

3 We are using the data that you have  
4 prepared, and the policy recommendations that we  
5 found in the report, and we think this is a  
6 wonderful piece of work. We have a few comments,  
7 and I'll suggest that these -- because I have  
8 relatively few comments, it suggests the quality  
9 of the report itself.

10 With respect to the natural gas  
11 assessment, we have a few data updates,  
12 particularly in the LNG area, and we have a policy  
13 recommendation that we would ask you to reflect on  
14 with respect to the importation of LNG supplies  
15 into California.

16 With respect to the electricity  
17 assessment, we encourage this Commission to make  
18 the report more meaningful by recommending  
19 solutions to the Governor and the Legislature with  
20 respect to certain specific critical policy  
21 issues, or at least if the report would go so far  
22 as to frame those issues for the Governor and the  
23 Legislature so they can be resolved in the next  
24 legislative section. And I'll be getting to those  
25 in just a moment.

1           First, turning to the gas market  
2      assessment. I want to update the cost assumptions  
3      that are found in the natural gas assessment with  
4      respect to LNG processing, transport and delivery.  
5      We would ask that you add a supplemental base  
6      supply case scenario that assumes the deliver of  
7      LNG to the west coast of North America and  
8      possibly to California by 2007.

9           And finally we would recommend that you  
10     urge the Governor and the Legislature to adopt an  
11     action plan related to seeing what we can do about  
12     reconsidering and modifying the gas quality  
13     standards that could ultimately result in  
14     facilitating deliveries of LNG to California.

15          First, with respect to your LNG cost  
16     assumptions, these are found at page 67, and in  
17     the Appendix at page B-1 of the Natural Gas  
18     Assessment Report, the production costs that we  
19     are seeing in the market for a green field  
20     liquefaction facility runs between \$200 and \$300  
21     per metric tons, translating into approximately  
22     \$1.3 billion to \$1.6 billion for facilities which  
23     are typically sized in this 6.6 million tons per  
24     year range.

25          While those numbers may generally be

1 consistent with the figures shown in your report,  
2 the staff report indicates that the higher-end  
3 costs would be closer to \$2 billion.

4 I would suggest that, although there are  
5 facilities who's cost does approach that range,  
6 they're not being considered for export to the  
7 United States, because in the absence of some  
8 other economy in the value chain they simply  
9 wouldn't be economic for import.

10 So the range that I think you're going  
11 to find in the market for deliveries to the U.S.,  
12 you're looking at liquefaction facilities cost  
13 somewhere in this \$1.3 billion to \$1.6 billion  
14 dollar range.

15 Secondly, we are developers of the Costa  
16 Azul project and the Cameron project in Louisiana.  
17 And the figures that you show in your report for  
18 the development costs of re-gasification  
19 facilities is about 100 to 150 percent higher than  
20 our anticipated cost of bringing those facilities  
21 to market.

22 The development cost of a facility with  
23 an output capacity of about a billion cubic feet  
24 per day runs between \$500 to \$600 million,  
25 depending on the site itself and the requirements

1 for accessing pipelines and the construction of  
2 jettys to receive the supplies.

3 We haven't seen anything in the order of  
4 magnitude that the staff has included in their  
5 cost assumptions, so we would suggest that you re-  
6 look at the figures you were using.

7 I think these figures are also  
8 consistent with the Mitsubishi cost projections  
9 that are being used for Long Beach, although I'm  
10 not privy to those. We understand those to be  
11 pretty consistent with our own cost estimates.

12 Your marine transport costs are  
13 generally consistent with what we're finding  
14 available in the market. However, the staff  
15 report doesn't take into consideration that new  
16 ships and new ship designs, running somewhere  
17 between 10 and 20 percent larger than the sizes  
18 considered in the report are coming to market.

19 And you can see just from the figures  
20 shown on this sheet that there is considerable  
21 per-unit cost efficiencies associated with those  
22 new, larger ships.

23 The bottom line from the use of our  
24 data, and these numbers presented to you, is that  
25 LNG can be cost-competitive at the \$3.50 per

1 million BTU price range.

2           That's a figure about 15 percent lower  
3 than is shown in the staff report, and as we  
4 understand it, the staff was using 1998 dollars,  
5 so the staff report figures are probably closer to  
6 20 to 25 percent higher than is required for LNG  
7 to be economic and competitive in U.S. markets  
8 today.

9           Turning to our second recommendation,  
10 although the staff developed a gas supply scenario  
11 in which LNG was assumed to be imported into at  
12 least three new terminals by 2007, we believe that  
13 you can get a better picture of the gas supply  
14 situation on the west coast if you add what we  
15 call a supplemental base supply case.

16           There are currently four projects under  
17 serious consideration for development on the North  
18 American west coast. You have our Costa Azul  
19 project at Ensanada, Shell Oil's project at  
20 Ensanada, the Marathon project in Tijuana, and the  
21 Mitsubishi project in Long Beach.

22           I think it's a fairly safe assumption  
23 that one of these projects will come to fruition  
24 and will come to market in 2007 to 2008 time  
25 frame. So if you built a supplemental base case,

1 assuming that 500 million cubic feet per day would  
2 be delivered in to California, I think it would  
3 change your view of what the long-term  
4 supply/demand balance would be in the state.

5 We also think by running this scenario  
6 you would find yourself exploring a couple of  
7 other issues. First of all, our gas price data --  
8 and although I'd like to provide it to you I've  
9 been told that I can't -- our gas price data  
10 indicates that your base case price is low in the  
11 early years, and high in the out years.

12 Generally, the consensus view and the  
13 view that we're seeing based on forward price  
14 contracts in the gas market on the west coast  
15 indicate that prices will rise consistently  
16 through 2007, and at that time, as LNG supplies  
17 are introduced into the U.S. market, prices will  
18 fall and tend to rise more slowly over time.

19 So by running the supplemental base  
20 supply case we think you'll get another view of  
21 how the gas supply demand balance and prices will  
22 evolve over time.

23 And the final issue on gas quality  
24 standards. As the report notes, there are certain  
25 California gas quality standards that may preclude

1 the delivery of LNG to California markets under  
2 the best available terms and conditions.

3 In particular, the Air Resources Board  
4 methane content standards would require  
5 substantial levels of additional processing of LNG  
6 supplies prior to their injection into the  
7 California utility system. There are few, if any  
8 current LNG suppliers that can meet these  
9 standards.

10 It is a considerable added cost to the  
11 LNG delivery chain to add processing into the  
12 stream. While the Gas Assessment Report  
13 recommends that a review of these standards take  
14 place, I think what we actually need in the LNG  
15 industry to encourage the importation and delivery  
16 of LNG to California is an action plan, and we  
17 would strongly recommend that this Commission make  
18 policy recommendations with respect to who should  
19 take the leadership role in conducting and  
20 implementing the action plan and the  
21 accountabilities for collateral and ancillary  
22 agencies be assigned.

23 That's pretty much along the lines of  
24 the kinds of recommendations that we have for the  
25 electricity assessment. There are a number of

1 policy issues which are suggested by the report  
2 but which are not resolved by the report, and we  
3 would strongly encourage this Commission to take  
4 a leadership role in addressing these issues and  
5 making strong recommendations to the Legislature  
6 and the Governor with respect to how these issues  
7 should be resolved.

8           We think the Legislature has placed this  
9 Commission in the role of leading the energy  
10 agencies with respect to policy in California.  
11 You have the ability to adopt findings that would  
12 be binding on the other agencies regulating the  
13 energy activities in this state, so at least we  
14 think that you can step forward and start the  
15 debate by taking recommendations along the lines  
16 of the kinds of things I'm going to suggest, and  
17 we have three.

18           First, we believe that transmission  
19 jurisdiction would benefit from the creation of a  
20 joint board or a super-jurisdictional lead agency  
21 to take care of siting of transmission in this  
22 state.

23           Secondly, we think that the supply and  
24 demand case needs to be broadened to address the  
25 regional nature of electricity markets, and how



1 California state agencies are going to participate  
2 in the development of the regional regulation of  
3 these markets.

4 And finally, we notice the key omission  
5 of market structure issues from the report, and  
6 would encourage you to take positions with respect  
7 to the appropriate market structure for California  
8 electricity markets.

9 With respect to transmission siting, the  
10 electricity assessment indicates that there should  
11 be cooperation among the agencies, and certainly  
12 the Energy Action Plan points in that direction.

13 But I will tell you, as a potential  
14 developer of transmission in this state, and as a  
15 user of transmission in this state to facilitate  
16 both bilateral contract arrangements and short-  
17 term spot sales, that cooperation is going to be  
18 insufficient.

19 And we recommend that the Energy  
20 Commission make recommendations to the Legislature  
21 and the Governor with respect to siting  
22 jurisdiction, or at least invite the governor and  
23 the Legislature to address jurisdictional issues.

24 All of the agencies involved in  
25 transmission siting have very specific legal

1 responsibilities. In addition, they have their  
2 own cultures and traditions.

3           There are a couple of things we think  
4 will get in the way of resolving all of those  
5 kinds of problems and getting to a responsible  
6 transmission siting policy and infrastructure in  
7 this state.

8           First of all, the ISO is not part of the  
9 Energy Action Plan, and until we see the ISO  
10 involved as part of the Plan implementers it's  
11 hard for us to anticipate that their findings with  
12 respect to need are going to influence the other  
13 agencies.

14           And secondly, we don't like to bring  
15 these sorts of things up, but we worry that the  
16 Energy Action Plan effort will not survive the  
17 current appointees, who seem very committed to  
18 implementing it. As I said, the agencies have  
19 very different legal responsibilities, as Mr.  
20 Guliassi pointed out.

21           You have much different processes and  
22 procedures. We see the Energy Commission actively  
23 participating in PUC proceedings, but see them  
24 participating as just any other party.

25           We don't see, for example, joint ALJ's

1 from all the other agencies conducting the  
2 hearings making joint findings and recommendations  
3 to their respective leaderships.

4           So we believe that you ought to specify  
5 for the Commission what the appropriate state  
6 transmission siting and approval agency ought to  
7 be. It can be a joint powers agency, involving  
8 all of the agencies in the Energy Action Plan.  
9 But we think it ought to be more formal than the  
10 informal process you are currently pursuing.

11           Secondly, the California electricity  
12 market is really a subset of a larger regional  
13 electricity market. The Electricity Assessment  
14 Report makes very little mention of developments  
15 in the entire western region, despite  
16 acknowledging that we are in regional market.

17           It doesn't specify, for example, how  
18 this state should be coordinating with other  
19 states and the FERC with respect to resolving  
20 demand and supply issues in the region. You've  
21 already heard the discussion of resource adequacy.

22           While I understand the state doesn't  
23 always appreciate the efforts of the feds to  
24 intervene, the FERC, among its recommendations in  
25 the standard market design Notice of Proposed

1 Rulemaking did have what we thought was one good  
2 idea, and that was that the regions ought to  
3 cooperate in developing resource adequacy issues.

4 As an example, I don't know if you know  
5 this, but the Canadian Electricity Association,  
6 which represents 95 to 99 percent of all  
7 production facilities in Canada, has filed a  
8 protest with FERC in their rulemaking regarding  
9 the market-base rates authority rules that would  
10 be imposed on those holding such authority,  
11 particularly with respect to physical withholding.

12 CEA has indicated that, under certain  
13 circumstances, a Canadian producer could be  
14 violating local regulatory rules if it were  
15 obligated to not withhold energy during certain  
16 circumstances.

17 If the CEA is correct, and Canadian  
18 producers would return their market based rates  
19 authority, their participation in the western  
20 region could be substantially reduced. That would  
21 have implications for the Pacific Northwest, which  
22 in turn would have very strong impacts on  
23 California supply availability.

24 Those are the kinds of issues that need  
25 to be addressed so that the Governor and the

1     Legislature and everyone else understands how the  
2     coordination of regional circumstances can be  
3     accomplished.

4             We anticipate that California will  
5     continue to be a large regional importer and  
6     exporter of seasonal energy, so we need to  
7     integrate our efforts with the efforts of the  
8     surrounding states, the surrounding RTO's and  
9     ISO's and Canada.

10            Finally, turning to our last  
11    recommendation, the hallmark of the staff report  
12    is the admonition that you can't eliminate risks  
13    in the energy market, but you can manage them. We  
14    take that to heart. We also believe that the  
15    market structure tells you how you manage risk.

16            It provides the incentives and  
17    disincentives to engage in certain behaviors that  
18    guide your investment. It tells you who  
19    participates in the effort to manage the risk  
20    extant in the markets.

21            So issues such as wholesale procurement  
22    practices, which was strongly encouraged in last  
23    session's Assembly Bill 57, how resource adequacy  
24    issues will be resolved, the parameters of that,  
25    particularly for the entities not regulated by the

1 Public Utilities Commission, how short and long-  
2 term markets in both supply and demand resources  
3 are managed, selected and implemented, and funded.

4 Whether we will have retail competition,  
5 and on what terms and conditions. Whether  
6 alternative suppliers ought to be encouraged in  
7 the state. All of those kinds of issues need to  
8 be addressed as we move forward, and we are  
9 looking forward to the Energy Commission taking a  
10 lead with respect to resolving what the market  
11 structure in the state ought to be for the near  
12 future.

13 After the Northeast blackouts you hear a  
14 lot of people saying that that kind of thing  
15 shouldn't happen on my watch.

16 So if you want to develop  
17 recommendations with respect to market structure  
18 we think you can take "not on my watch" standard,  
19 pick the policies, the objectives, and the  
20 outcomes that you want to serve, whether it's any  
21 of the ones listed here -- reliability, stability,  
22 diversity, environmental sustainability, cost-  
23 effectiveness, resource sufficiency -- pick one,  
24 put the incentives and the market structure around  
25 those, and we think they'll adequately be

1 addressed.

2           So the bottom line is the Global  
3 Enterprise business unit strongly encourages the  
4 Commission to step out, step up, and tell the  
5 Governor and the Legislature what needs to be done  
6 with respect to resolving the California  
7 electricity market structure, so at the need of  
8 the day we can all go home and say "that didn't  
9 happen on my watch."

10           And again, I would urge you to do that  
11 because your findings would be binding on the  
12 other agencies who think they have jurisdiction  
13 over market structure issues as well.

14           Those are our comments. if you have any  
15 questions, I'd be happy to answer them.

16           COMMISSIONER BOYD: Thank you, Mr. Pak,  
17 that was enlightening, intriguing, all of the  
18 above. Any questions?

19           COMMISSIONER GEESMAN: I'd just like to  
20 thank you, Mr. Pak, for your comments, and in  
21 particular as it relates to the transmission  
22 system. It's my firm hope that we can rise to the  
23 challenge that you've put before us.

24           Sempra, I think, has gone through the  
25 crucible most recently of the dysfunctional nature

1 of the status quo, and while I think that the  
2 Energy Action Plan is a good start, and that there  
3 is good faith on the part of all the members of  
4 the three agencies working on that, we really do  
5 need to more permanently address these problems,  
6 and address them in a more straightforward,  
7 statutory sense.

8 And I thank you for your  
9 recommendations, and I'm certainly hopeful that we  
10 can expect continued leadership from your company  
11 and your industry on these questions as this issue  
12 goes to the Governor's office and the Legislature.

13 MR. PAK: Thank you, Commissioner.

14 COMMISSIONER BOYD: Chairman Keese?

15 CHAIRPERSON KEESE: I'm happy to be here  
16 versus spending the whole day bailing water out of  
17 a tub that was receiving all the waters from the  
18 above apartments since six this morning.

19 Sorry if I missed part of your comment,  
20 but you referenced the Energy Action Plan and a  
21 relationship to FERC. You know, it's my hope that  
22 by the time we wrap up here we can incorporate the  
23 western regional activities that are taking place  
24 now through the Western Governors Association,  
25 which involves a transmission planning agenda, a



1 resource adequacy agenda, and a number of other  
2 activities taking place in the WIEB and CREPC  
3 groups and the SSG-WI process.

4           There are a number of activities in  
5 which California is actively participating through  
6 the Public Utilities Commission and through the  
7 Energy Commission, input from the ISO, the  
8 Oversight Board to deal with the western regional  
9 issues.

10           Now it becomes a major task to try and  
11 incorporate that into our process, when we're not  
12 directly involved. But I think the Action Plan  
13 gave you a suggestion that the three agencies  
14 working together believe that we have to deal with  
15 FERC in the mix.

16           And we have been dealing with the ISO in  
17 the mix. So maybe it is broader than somebody  
18 just making a statement about where we should go.  
19 Maybe we are moving towards action across the  
20 board in California.

21           MR. PAK: We understand there's a lot of  
22 heavy lifting involved here, and its pretty easy  
23 for us to say get involved in all of these  
24 interstate, multi-state processes.

25           But there are a number of them, and

1 they're all important, and they're all influential  
2 on what happens to California's energy markets.  
3 We participate in those more so than we do in  
4 California, largely to avoid conflicts with our  
5 sisters at the utilities.

6 But there are a number proceedings. For  
7 example, the Oregon PUC recently started its  
8 integrated resource planning process where they're  
9 going to set the rules for how their market  
10 structure is developed, and the rules and  
11 conditions under which merchant generators, retail  
12 energy service providers will participate in their  
13 market.

14 California is not represented in those  
15 discussions, and there's a good deal of  
16 development that could occur both with respect to  
17 renewables and fossil-fired facilities that we're  
18 more familiar with at Semptra, that could be used  
19 to serve not only Oregon load but California load.

20  
21 And I think the Oregonians have  
22 understood that they can get more efficient plans  
23 by sort of subletting their resources to  
24 California. We believe California ought to be  
25 involved in that process as that discussion takes

1 place.

2           Thee are a number of instances like  
3 that, where we don't see California state agencies  
4 there. And I know it's hard during these budget  
5 times for you to be everywhere all the time, but  
6 we would encourage at least the Governor and the  
7 Legislature to be advised that these are important  
8 processes. And you need to have a California  
9 voice there.

10           CHAIRPERSON KEESE: Thank you.

11           COMMISSIONER BOYD: Your point is well  
12 taken. You mentioned earlier that in the Energy  
13 Action Plan the ISO -- of course it's three  
14 agencies, not four -- I would point out that one  
15 of the dilemmas is that the ISO is not a state  
16 agency.

17           And they were at the table for some of  
18 the discussions, and as Chairman Keese indicated,  
19 we do our utmost to work cooperatively with them,  
20 but that's one of the I'm sure policy issues that  
21 sits on the table, the roles of the multiple  
22 agencies, and who is and who is not a state  
23 agency, and who should do what.

24           And I think we're all scrambling to do  
25 our best to sort that out. You alluded to the,

1 referred to the current political climate, but I  
2 wasn't quite sure you were going with the comment.

3 Some of us are mildly impervious to the  
4 storm that's going on around us right now, and  
5 we'll still be here, yours truly, for three and a  
6 half years. So some of us will try and see our  
7 way through the eye of the storm that exists now  
8 and try to be mildly courageous with regard to  
9 making some recommendations with some findings.

10 So, watch this space, and stay involved.  
11 I was very pleased, as were my fellow  
12 Commissioners I hear, with the extent of your  
13 testimony, and we appreciate it.

14 MR. PAK: Thank you, Commissioner.

15 COMMISSIONER BOYD: Thank you. Now, in  
16 deference to a time request, I'll call on Mr. Joe  
17 Sparano, President of WSPA.

18 MR. SPARANO: Good morning Chairman  
19 Keese, Commissioner Boyd, Commissioner Geesman,  
20 Advisors, ladies and gentlemen in the audience.  
21 My name is Joe Sparano, I'm President of the  
22 Western States Petroleum Association, or WSPA.

23 I'm please to provide WSPA's brief oral  
24 comments on the Energy Commissions Electricity and  
25 Natural Gas Assessment Report as our input to the

1 states Integrated Energy Policy Report, or IEPR.

2 WSPA appreciates the Energy Commission's  
3 extension of the date for submittal of written  
4 comments to September 2nd. At that time WSPA will  
5 submit more comprehensive written testimony for  
6 the record.

7 At this point we would like to request  
8 that you consider adding Bakersfield as a final  
9 hearing location when the Energy Commission  
10 considers adoption of the IEPR in October.

11 COMMISSIONER BOYD: Consider it done.

12 MR. SPARANO: Oh, good, then I can skip  
13 the rest. That's good. As you know, we have a  
14 significant number of members that operate in that  
15 area, and they are keenly interested in engaging  
16 in this study and on these issues.

17 COMMISSIONER BOYD: We had observed that  
18 a week or two ago, and already made that decision.  
19 Sorry it hadn't filtered out.

20 MR. SPARANO: You're always a week or  
21 two ahead of me. I have to work on my act here.  
22 We do appreciate this opportunity to share our  
23 industry's views and suggestions.

24 WSPA members view the Energy  
25 Commission's program to develop a comprehensive

1 energy plan for California to be an extremely  
2 important effort that will set the future  
3 direction for our collective goal of meeting the  
4 state's increasing energy demands.

5 WSPA agrees with the Energy Commission  
6 that California needs a strong and flexible energy  
7 infrastructure to meet the energy needs of the  
8 state. Working with the stakeholders will help  
9 ensure that consumers receive reliable, reasonably  
10 priced electricity and natural gas that will  
11 promote economic growth, protect public health and  
12 safety, and last but hardly least, protect the  
13 environment.

14 A balanced energy plan is needed for  
15 California to continue providing the opportunity  
16 for economic growth that our citizens expect. A  
17 balanced energy plan should also result in ample,  
18 reliable cost-competitive supplies of energy.

19 In-state energy production has not kept  
20 pace with demand, so reliance on imported energy  
21 is necessary. California has valuable in-state  
22 resources, and access to various external  
23 resources of supply. The cost of these supplies,  
24 although largely set by commodity markets, can be  
25 managed by maintaining diverse supply alternatives.

1           Our additional comments and  
2       recommendations are grouped in three areas.  
3       Natural gas -- including intra- and interstate --  
4       liquefied natural gas, and electricity and co-  
5       generation.

6           With regard to natural gas, WSPA  
7       believes that there are opportunities to replace  
8       in-state gas reserves, and to support economically  
9       competitive in-state gas supplies.

10           WSPA is concerned over proposed car and  
11       motor vehicle compressed natural gas  
12       specifications, and the attempts by some to force  
13       application of those standards on producers of  
14       commercial natural gas.

15           We are participating in the Energy  
16       Commission's working group, seeking resolution of  
17       that issue, as well as addressing the issue of the  
18       inability to get low BTU gas to market in northern  
19       California.

20           WSPA supports creating incentives for  
21       new investment in intra and interstate pipelines,  
22       as needed to deliver gas to and throughout  
23       California. We also support diversifying the fuel  
24       base for electricity generation in California.

25           For LNG, WSPA supports promotion of the

1 installation of LNG facilities in strategic market  
2 locations. Adding a commercially significant  
3 volume of LNG to the supply mix will enhance  
4 supply alternatives that may serve to dampen  
5 market volatility.

6 Maintaining a strong instate natural gas  
7 supply, importing or increasing supplies of LNG,  
8 and supporting growth of pipeline capacity in  
9 several systems, not just one, will help buffer  
10 the impact of temporary interruptions that may  
11 occur.

12 With respect to electricity, WSPA  
13 supports establishing and maintaining the private  
14 marketplace for electricity, ensuring equitable  
15 rate setting for industrial customers, promoting  
16 market opportunities and choice for industrial  
17 customers, promoting customer generation supplies,  
18 both co-gen and self-gen, and maintaining a stable  
19 electricity regulatory and policy environment.

20 WSPA strongly supports the promotion of  
21 energy efficient power generation, such as co-  
22 generation, to reduce California's natural gas  
23 demand. Most California oil and gas companies are  
24 large users of electricity, and many have major  
25 co-generation investments.



1           These co-gen units use internally  
2   produced fuel to generate power for our member's  
3   facilities, and export surplus electricity into  
4   the power grid. WSPA supports co-generation,  
5   because it creates private investment, jobs, and  
6   tax revenues for California. It enables customers  
7   to manage and stabilize energy costs.

8           Co-generation increases electricity  
9   dedicated to serve California, and enhances the  
10  reliability of the state's transmission grid.  
11  While increasing energy efficiency and reducing  
12  air emissions, co-generation reduces the state's  
13  reliance on natural gas and natural gas  
14  transportation for electricity generation.

15          In summary, WSPA appreciates the  
16  opportunity to comment on the Energy Commission  
17  plans for meeting the state's increasing energy  
18  demands through the effective and efficient use of  
19  natural gas, liquefied natural gas, and  
20  electricity supplies.

21          As with our comments on the strategies  
22  to reduce petroleum dependency, WSPA believes  
23  there is great merit in expanding the availability  
24  of existing clean fuel supplies for energy  
25  generation, while developing and implementing new

1 sources of energy to meet California's growing  
2 demand.

3 Thank you for the opportunity to speak  
4 before you, and if you have any questions I'd be  
5 happy to answer them.

6 COMMISSIONER BOYD: Thank you, Mr.  
7 Sparano. Any questions?

8 CHAIRPERSON KEESE: I'd like to just  
9 ask, clearly the most important issue to your  
10 industry is the petroleum aspects, the crude oil,  
11 gasoline, diesel, etc. We have to balance that  
12 interest with electricity and natural gas.

13 Do you have any comments regarding the  
14 significance, does the industry consider the  
15 electricity segment and its impact on the industry  
16 very significant or a minor area, or --?

17 MR. SPARANO: I would hardly  
18 characterize it as minor. It varies in the eye of  
19 the beholder. But we are significant users of  
20 electricity, as I mentioned.

21 We generate a fair amount among our  
22 members, and I'd like to remind the Commissioners  
23 that, while WSPA is often seen in the light of  
24 transportation fuel activities that involve crude  
25 and gasoline and diesel, we have a significant

1 number of members who are producers of natural  
2 gas, who are owners of co-generation facilities.

3 So this entire area is of keen interest  
4 to us, and of deep importance to our members, and  
5 we plan to stay engaged on it because it is such  
6 an important manner.

7 CHAIRPERSON KEESE: Good. Thank you.

8 COMMISSIONER BOYD: Mr. Sparano, I'm  
9 following up on Chairman Keese's comments. I  
10 think I know that electricity is a valuable  
11 component of your industry, and the inputs to the  
12 industry, and you did -- and I appreciate it --  
13 speak to the continuing support for co-gen and  
14 self-gen.

15 I was glad to hear that because during  
16 the depths of the energy crisis we reached out to  
17 your industry in the area of self-gen and a couple  
18 of your members actually built a couple of  
19 facilities, and we climbed a terribly steep and  
20 slippery slope together in getting that completed  
21 in the collapse of the California market, which  
22 has not looked kindly upon self-gen, in the way  
23 that it restructured itself.

24 So I was kind of gratified to hear that  
25 you're still willing to speak to that issue and

1 support that issue, because I personally see that  
2 as something that makes a lot of sense, for  
3 electricity security reasons, for post-9/11  
4 security reasons, and what have you, to have  
5 refineries that are somewhat self-reliant in terms  
6 of their electricity needs, which are mammoth,  
7 quite frankly.

8 So, anyway, so noted, and I appreciate  
9 the continued thoughts along those lines. Any  
10 other comments, questions? Thank you very much.

11 MR. SPARANO: Thank you.

12 COMMISSIONER BOYD: Next I have Gary  
13 Schoonyan of Southern California Edison.

14 MR. SCHOONYAN: Thank you, Commissioner  
15 Boyd. Gary Schoonyan, Southern California Edison.  
16 And we will be filing comments with regards to the  
17 comments I make today, and maybe some additional.

18 And as a backdrop, I think this hearing,  
19 this workshop, is very important in addressing the  
20 issues. And we would hope that the Committee and  
21 the Commission write a policy report or something,  
22 or do something with this to basically move  
23 forward and address the issues, many of which have  
24 been discussed already, and I'm sure more  
25 important ones will come to the surface as the

1 days roll on.

2 Before I begin I want to also appreciate  
3 the efforts, or give thanks to the efforts of Al,  
4 Karen, David, and Lynn, and the rest of the Energy  
5 Commission staff for doing a very thoughtful,  
6 thorough, timely and complete report and  
7 assessment.

8 And I might add that they were very  
9 accessible, we had a number of discussions with  
10 them and what-have-you in trying to basically  
11 address the issues that are portrayed in the  
12 assessments made in the particular reports, and we  
13 really appreciate that.

14 In saying that, I want to address the  
15 questions that were published yesterday, and not  
16 get into the report itself. It'd probably be the  
17 easiest way to proceed.

18 In essence, I think that what the report  
19 and everything else look at is one of the key  
20 objectives and goals is to ensure that reliable  
21 and affordable natural gas, that in getting this  
22 the state policies need to be focused on providing  
23 such through new needed infrastructure.

24 And I think that's one of the key  
25 focuses, is the new needed infrastructure. And

1     when I say infrastructure I don't just mean supply  
2     side infrastructure, I also am talking about the  
3     wires into the business, as well as the end use,  
4     the demand side of the business.

5             This state needs more investment in  
6     those particular areas. There are issues and  
7     constraints associated with these three areas, and  
8     I'll just highlight a few. In the generation area  
9     in particular, two out of the three utilities are  
10    not yet credit-worthy, and not able to make long-  
11    term commitments for new supply.

12            If we were credit-worthy there'd be a  
13    number of things that we'd be able to do,  
14    including provide nice handouts the way our  
15    brethren from Sempra Global were able to.

16    (laughter)

17            But there are still some issues  
18    associated with generation. The issues of  
19    customer base is still uncertain. Who are the  
20    customers we are going to be serving?

21            Cost recovery is an uncertain element  
22    going forward. AB 57 made great inroads in that  
23    with regards to the utilities contracting for  
24    power from third parties, providing the upfront  
25    certainty and what-have-you. There still needs to

1 be, from our perspective, added certainty in cost  
2 recovery for reasonable costs going forward.

3 In the transmission area there's been  
4 quite a bit of discussion already with regards to  
5 the time it takes and the uncertainty involved in  
6 licensing and constructing new transmission.  
7 There needs to be something done to facilitate the  
8 timely and coordinated regulatory processes  
9 associated with the licensing and development of  
10 new transmission.

11 Now whether these changes require  
12 structural changes, or just changes in the way  
13 things are administered, we're uncertain at this  
14 point in time, but presently it appears that  
15 whatever is going on is broke and needs to be  
16 enhanced.

17 Along that line, with regards to the  
18 transmission, there also needs to be a concerted  
19 effort to pursue factual testing and understanding  
20 of new methods and approaches of enhancing and  
21 managing the grid.

22 I think some of these things have been  
23 identified, there just needs to be, from our  
24 perspective, a more thorough approach to testing  
25 and actually looking at these as alternatives and

1 methods in moving forward in enhancing the  
2 reliability and cost-effectiveness of the grid.

3 In the area of distribution, from our  
4 perspective we need to build off the good effort  
5 that this Commission has done with regards to the  
6 DG, the distributive generation. There's been a  
7 very factual attempt to try and understand the  
8 implications of integrating distributive  
9 generation.

10 I think similar sorts of efforts need to  
11 be made to address the physical constraints  
12 potential and limitations, and just overall  
13 implications of all the various demand side,  
14 dynamic pricing, and continued efforts on DG  
15 before we do blanket and large-scale endorsements  
16 of any one particular technology or an approach.

17 It's not saying that these things aren't  
18 good and shouldn't be pursued, but in order to  
19 basically ensure that they are done in a reliable  
20 and affordable manner without a lot of cost  
21 shifting and what-have-you, there needs to be,  
22 from our perspective, a little more thought given  
23 in those areas.

24 With regards to, I believe it was  
25 question six, on the requirement of contract



1 commitments. From our perspective there needs to  
2 be, for infrastructure, at least ten year  
3 commitments for new infrastructure to receive the  
4 financing necessary to move forward.

5 The issues of the uncertainty associated  
6 with the customer based cost recovery are very  
7 important, as I addressed earlier. As well as  
8 from a contracting perspective, the various  
9 contracted issues associated with debt  
10 equivalence, residual value, operating  
11 flexibility, all of these issues to make sure that  
12 customers get the long-term value from the  
13 projects and the facilities that they're paying  
14 for.

15 With regards to core, non-core, whatever  
16 the market structure is that evolves, it must  
17 ensure that sufficient infrastructure is developed  
18 to serve load reliably.

19 This was our biggest concern with the  
20 legislation that went before the Legislature this  
21 year, the core non-core proposals, is that, from  
22 our perspective, it was not going to ensure that  
23 new infrastructure was going to be built.

24 And furthermore there was created a  
25 number of instances of cost-shifting, or at least

1     what we viewed as cost-shifting. From our  
2     perspective, at this point in time ESP's -- and  
3     customers for that matter -- have been reluctant  
4     to engage and enter in to ten-year plus agreements  
5     that basically are necessary to ensure that new  
6     supply or demand-side alternatives are  
7     financeable.

8             There was a question regarding  
9     redundancy, and how much. I think from our  
10    perspective the issue isn't so much how much  
11    redundancy is required, it's who is responsible  
12    for the resource adequacy.

13            And this gets to the key market  
14    structure issues that I think Mr. Pak referred to  
15    earlier. I mean, if you take a look at just  
16    Edison right now, we have approximately 15 percent  
17    of our customers on direct access. Now do we  
18    procure reserves for them, do we procure power  
19    just for our own bundled customers with reserves?

20            The answer to those questions of impact,  
21    how much resources we have to go out and obtain on  
22    the order of over 3,000 megawatts. Now, needless  
23    to say, that's an issue that needs to be addressed  
24    and resolved, as to who has the responsibility for  
25    resource adequacy going forward.

1           in addition there was a question with  
2   regards to out-of-state power, and we believe that  
3   you should encourage the integration and exchange  
4   of resources from outside our state, and whatever  
5   environmental requirements that exist in the host  
6   locations, they should be honored.

7           With regards to the environmental,  
8   there's just a couple of points with regard to  
9   questions that were addressed yesterday. From our  
10   perspective -- and this has to do with actions  
11   that are needed to respond -- from our perspective  
12   there needs to be a factual audit of the various  
13   environmental programs that have existed within  
14   the state, and focus on improving their  
15   effectiveness.

16           I mean, the only way you can improve  
17   programs is to basically evaluate them, and to  
18   move forward to ensure that the customer gets the  
19   most for their investment that they're making.

20           For example, the utilities commission  
21   has just embarked upon a very extensive audit of  
22   Edison's DSM administration for the last five  
23   years. That's fine, we have no problem with that.

24           But similar sorts of audits, factual  
25   audits and assessments need to be made on all the

1 various programs such that they can be improved  
2 upon and gone forward with.

3 And the final thing is there was a  
4 question with regards to taking advantage of  
5 existing sites. We feel that that is very  
6 important.

7 To the extent that there is existing  
8 infrastructure out there, be it outdated and old,  
9 it's still an opportunity to use those sites which  
10 are very valuable, and try and enhance them  
11 through repowering and other sorts of things to  
12 meet not only the reliability but the  
13 environmental concerns that are facing this state.

14 Appreciate the opportunity to address.

15 COMMISSIONER BOYD: Thank you. Any  
16 questions? Chairman Keese.

17 CHAIRPERSON KEESE: Gary, you mentioned  
18 long-term a number of times, and ten years crept  
19 in there a couple of times, ten years or more than  
20 ten years. On the issue of new generation, new  
21 central station generation.

22 Is that an opinion that maybe a ten-year  
23 contract is enough to allow the developer to go  
24 forward?

25 MR. SCHOONYAN: I said ten year plus.

1 From our perspective, and this is just based upon  
2 experience, that we've looked at over the last  
3 couple of years --

4 CHAIRPERSON KEESE: Right.

5 MR. SCHOONYAN: -- that it requires at  
6 least about a ten year contract to get the  
7 financeability to move forward with a new  
8 facility.

9 CHAIRPERSON KEESE: I would agree with  
10 that. If you move to the area of LNG, for  
11 instance, highly capital-intensive projects,  
12 overall projects looking at the six, seven, eight  
13 billion dollar level to put the whole package  
14 together. Ten years, or are we talking 20 or 30?

15 MR. SCHOONYAN: I'm not an expert on  
16 LNG, but I would envision that when you're talking  
17 about dollars of those magnitudes that there needs  
18 to be commitments probably in excess of the ten  
19 years. At least to cover a large portion of the  
20 facility cost going forward. But here again, I'm  
21 not an expert on that.

22 CHAIRPERSON KEESE: Right. And anything  
23 of that nature would have to be approved, as far  
24 as your organization is concerned, by the PUC. Am  
25 I correct?

1           MR. SCHOONYAN: I believe that's  
2 correct. You're talking about LNG? I mean, we're  
3 not a gas company.

4           CHAIRPERSON KEESE: I'm talking about  
5 LNG, I'm talking about -- if you got involved in  
6 part of an LNG process, either owning it or --

7           MR. SCHOONYAN: Our involvement would  
8 have to be approved by the PUC.

9           CHAIRPERSON KEESE: -- signing up for 30  
10 years supply or 20 years, that would have to be  
11 approved. And likewise for a ten year contract  
12 for generation from a new facility would require  
13 PUC approval?

14          MR. SCHOONYAN: That is correct. And  
15 frankly, we wouldn't proceed without it. In  
16 essence, with AB 57, that provides the assurance  
17 of cost recovery for entering in to that  
18 particular agreement going forward.

19          CHAIRPERSON KEESE: If we step back a  
20 couple years, there was a reluctance at the PUC to  
21 grant utilities anything longer than a year or two  
22 years. Are you more optimistic now that there  
23 might be the possibility of getting something  
24 longer, are those discussions taking place?

25          MR. SCHOONYAN: Well, I think it goes

1 beyond the discussions. I think it was the effort  
2 of the Legislature and the Governor last year with  
3 AB 57 to provide the statutory framework with  
4 which to provide that certainty going forward.

5 So I think AB 57 played a very key role  
6 in providing that additional certainty needed to  
7 enter into arrangements of that nature and that  
8 duration.

9 CHAIRPERSON KEESE: Okay, so we should,  
10 if that was our conclusion, that we also needed  
11 long-term arrangements, we would hinge it on  
12 authority of AB 57 and the suggestion that  
13 government should look at longer term contracts?  
14 Is that fair?

15 MR. SCHOONYAN: Well, I think definitely  
16 there should be a look at longer term contracts.

17 CHAIRPERSON KEESE: Thank you.

18 COMMISSIONER BOYD: Commissioner  
19 Geesman.

20 COMMISSIONER GEESMAN: Gary, I'd just  
21 take note of the comments you made about grid  
22 management and distributive generation, and thank  
23 you and the other California utilities for the  
24 help that you've provided to our PIER R&D program  
25 in looking in those areas.

1           I think that there are great  
2 opportunities ahead of us in there, and it will  
3 require all of us working pretty closely together  
4 to fully harvest those opportunities.

5           But in both the transmission R&D and the  
6 distributive generation R&D we've collectively  
7 done a pretty good job of attracting federal money  
8 into the effort as well, and I think are doing  
9 some things that truly are trendsetting or  
10 cutting-edge in terms of the rest of the country.

11          And I did want to take note of your  
12 comments there, and extend my commendations to the  
13 company for the assistance you've provided.

14          MR. SCHOONYAN: Thank you.

15          CHAIRPERSON KEESE: Gary, let me ask you  
16 another question. You alluded to core non-core  
17 and suggested that the proposals that were out  
18 there were unsatisfactory as far as your company  
19 was concerned?

20          MR. SCHOONYAN: For a couple of key  
21 reasons. They didn't induce new infrastructure,  
22 and there was cost-shifting.

23          CHAIRPERSON KEESE: One of the  
24 solutions, one of the ways for getting there,  
25 rising up through our analysis, has been that



1 perhaps a core non-core solution would be  
2 appropriate. Can you give us the reasons why that  
3 wouldn't be a good idea?

4 MR. SCHOONYAN: Here again, it depends  
5 on the rules and the structure in which you set  
6 something up. To the extent it's set up such  
7 that, let's say, the non-core is basically  
8 incented to go out and create new infrastructure,  
9 such that the non-core isn't relying on cost  
10 shifting or costs being transferred to the bundled  
11 service customers or those remaining.

12 To the extent that there are proper  
13 coming and going rules that protect the core  
14 customers, in other words doesn't provide the non-  
15 core customer a -- how should I say -- a free,  
16 safe harbor to always come back and flop back and  
17 forth.

18 I mean, from what we've seen, direct  
19 access -- and here again it's just based upon what  
20 we've seen -- typically it's done for two reasons.  
21 Either it's to avoid cost, or to take advantage of  
22 surpluses. And when those two go away then you  
23 see them gravitate back towards the bundled  
24 service.

25 And when those opportunities exist they

1 go the other way. I'm not saying that's bad, I'm  
2 just saying that that's the way it is.

3 And from the perspective of the state's  
4 objective of creating new infrastructure, you need  
5 to break this cycle of back and forth, because new  
6 infrastructure isn't going to be built in that  
7 sort of a fashion, unless the going back and forth  
8 has pretty good rules associated with what the  
9 costs are and what the lead times are in moving  
10 between the two categories.

11 CHAIRPERSON KEESE: Well, I would think  
12 that any discussion of resource adequacy and  
13 obligations under resource adequacy has got to  
14 take into consideration what you've discussed,  
15 that we can't suggest that the utilities are  
16 obligated to handle resource adequacy for their  
17 base, and then allow the base to move with  
18 impunity. We need better rules than we have in  
19 the past. Thank you.

20 MR. SCHOONYAN: Thank you.

21 COMMISSIONER BOYD: Gary, you mentioned  
22 look at existing sites, and I made them my note  
23 i.e. Brownfield. I don't know if you meant that  
24 or not, but I guess they are and repowering them  
25 and etc.

1           Is there some prohibition or are there  
2 prohibitions against that that caused you to say  
3 we should look at them? Because I would presume  
4 they are existing sites, and the idea of  
5 repowering is always in the mind of a utility or a  
6 generator who owns a property and perhaps an older  
7 plant or what-have-you?

8           MR. SCHOONYAN: To my knowledge, there  
9 isn't a prohibition from going forward on  
10 something like that. The reason I brought it up  
11 was in the context of, I believe, one of the  
12 questions that were asked, should the state policy  
13 be directed toward trying to take advantage of the  
14 Brownfield sites?

15           And I was just reiterating that yes, we  
16 believe that there are a lot of benefits  
17 associated with that. Not only do you have the  
18 transmission, the natural gas infrastructures, and  
19 many of the other -- the water and what-have-you  
20 at least -- different types of things available  
21 with those infrastructures in place to take  
22 advantage of that, seemed to make a lot of sense.

23           COMMISSIONER BOYD: I would agree.  
24 Thank you. Thank you very much.

25           MR. SCHOONYAN: Thank you.

1           COMMISSIONER BOYD: Next I have Kent  
2 Hampton of Marathon Oil. You should get equal  
3 time with Semptra now.

4           MR. HAMPTON: Thank you, Commissioner.  
5 My remarks are going to focus on LNG and its  
6 implications. I don't know whether this is the  
7 appropriate time to do that. I do have a  
8 powerpoint that I would like to set up, and that  
9 would take me about five minutes to do that, so --

10          COMMISSIONER BOYD: Why don't you work  
11 with our staff people in putting your powerpoint  
12 into the system, and in the meantime I'll call on  
13 some other folks and que you up when you're ready?

14          MR. HAMPTON: Very good. Thank you.

15          COMMISSIONER BOYD: Steven Kelly, IEP.

16          MR. KELLY: Steven Kelly with the  
17 Independent Energy Producers, and thank you very  
18 much for convening this workshop. And before I  
19 speak I too would like to reiterate my  
20 congratulations to the staff, particularly Karen  
21 and Al, for pulling this report together,  
22 particularly in a timely fashion.

23                 This is a huge, daunting task that they  
24 have before them, and I applaud them for being  
25 able to pull this together.

1           I actually look forward though, because  
2   I think this will obviously become a periodic  
3   process, where we will be working on improving the  
4   report over many years, so this is a very, very,  
5   good start.

6           Last night, just as an opening remark, I  
7   finally finished the book, Dan Brown's book The  
8   DaVinci Codes, if anybody's had a chance to read  
9   that. The parallels -- driving in this morning  
10  -- about searching for the Holy Grail came to me  
11  as I was coming across the causeway in terms of  
12  planning.

13           And then I came across --

14           COMMISSIONER BOYD: Why do you get time  
15  to read books?

16           MR. KELLY: I was up until late last  
17  night reading this, once I got into it. But  
18  anyway, I came in this morning, and I saw this  
19  room, and you know, the shape is kind of like a  
20  pentacle, so I'm now thinking there is greater  
21  convergence going on here than I ever had  
22  anticipated before, so --.

23           I had originally had some thoughts to  
24  express, and I'm going to try and weave those into  
25  the questions that the Commissioners released

1 yesterday.

2           And I want to thank the staff, the  
3 Commission's staff and the Commissioner's  
4 themselves, because it helped kind of frame the  
5 discussions and the thinking that I had, because  
6 I'll tell you, looking at a huge report like this,  
7 one that has a great deal of detail in it, is very  
8 hard to grasp and get your hands around, in terms  
9 of making a presentation, speaking to you.

10           But I would like to address some of the  
11 major policy issues that I think you need to keep,  
12 you know, awareness, some of which are in the  
13 report, some of which may not be.

14           First and foremost, and this is  
15 something I've been thinking about for a long time  
16 in terms of the needs for this state, the  
17 infrastructure needs that this report is designed  
18 to address.

19           But one of the things that I think is  
20 kind of shunted off to the side is the importance  
21 of public awareness, and ultimately the opposition  
22 of the public to building new infrastructure, both  
23 transmission and generation, and particularly on  
24 the transmission side.

25           I think we've talked about it a little

1 bit, but when I think of the stress points and the  
2 key issues that this state faces moving forward,  
3 and this agency as well as the other state energy  
4 agencies will face moving forward in building this  
5 infrastructure out, is how to convince the public  
6 about the need for the infrastructure and where to  
7 put it, and the importance of putting that in.

8           And I think that is going to take a very  
9 strong state role coming from you, the Public  
10 Utilities Commission, and the Legislature.  
11 Because as we all know, it's incredibly difficult  
12 to site new generation, and particularly difficult  
13 to site needed transmission in a timely manner.

14           And the report speaks to how the state  
15 agencies have gotten their regulatory processes  
16 fine-tuned, and I would agree with that for the  
17 most part, particularly regarding generation  
18 siting. It's a relatively arduous process but it  
19 works very well, and it comes in on time.

20           But the public, I don't think the public  
21 is quite there despite the crisis on the east  
22 coast and the energy crisis here, about the need  
23 for new infrastructure. And I'm not sure that we  
24 have the wherewithal amongst the policymakers to  
25 push that infrastructure in a timely manner. So I

1 just bring that to your attention as something  
2 that the Legislature, I think, needs to hear  
3 about, as the urgency for that.

4 Secondly, I just want to reiterate  
5 comments that other people have made about the  
6 critical importance for regulatory and political  
7 stability and certainty in this, as we move  
8 forward with infrastructure investments.

9 The report alludes to it and speaks to  
10 it, but I think in terms of a message to the  
11 Legislature, again, that stability is critical for  
12 drawing the new investment into California that is  
13 going to be needed to make sure that we have a  
14 safe and reliable system.

15 California is not an island, either.  
16 And we need to be aware that what we do, we do in  
17 the context of regional pressures, regional  
18 changes.

19 And as was alluded to earlier in  
20 previous remarks, I think it's vitally important  
21 that this state step up to the plate and work in  
22 more of a regional context, because what happens  
23 outside of California impacts us, what we do  
24 impacts them, and the lack of consistency cross  
25 the scenes is going to be critical as we move



1 forward over the next decades.

2 And finally, I just want to emphasize,  
3 what we're all up here for is the need for  
4 critical planning. And when I say that I'm really  
5 talking about timely, periodic, and transparent  
6 planning.

7 And it often seems the case, at least  
8 from the developers perspective, that right now  
9 we're looking at an environment where we don't  
10 really have a good idea of where the state is  
11 going, or where the UDC's want to be, what kind of  
12 products they want.

13 Most of the utility procurement filings  
14 are redacted, and the only place that we can  
15 actually see some of the planning information is  
16 through your process, which is going to be coming  
17 out every couple of years.

18 It's important to keep confidential,  
19 competitive information, but it's also important  
20 to show the developers, give them some expectation  
21 or anticipation of where the problems are going to  
22 be, so they can go out and do the field work to  
23 develop new infrastructure sites.

24 If you're developing generation in  
25 California you need to go out and talk to local

1 communities about site development, prior to  
2 actually competing into an RFP. Which means that  
3 you need to know, or have some idea, of where the  
4 needs are going to be, and what kinds of products  
5 are going to be requested by the utilities in the  
6 future.

7           And I think right now we don't have  
8 that. In the generation procurement proceeding I  
9 filed testimony that supported the Energy  
10 Commission staff on this matter, the need for  
11 greater awareness and transparency of the  
12 information related to planning, so that we can  
13 anticipate your needs, the load's needs, and  
14 better provide a product to meet that need.

15           So moving into the specific questions  
16 that you posed to us yesterday, and this is  
17 building on my comments that I've just made that  
18 are of kind of a general nature. I just have an  
19 observation regarding the question that relates to  
20 the role of DSM and dynamic pricing.

21           And my observation is that, at the same  
22 time that the Energy Commission is moving to  
23 foster these kinds of tools for load shaping and  
24 whatever, in another context we're actually moving  
25 to flatten those signals.

1           I just heard a radio commercial from a  
2 utility that basically was telling customers,  
3 rightfully and this is a smart thing, that you can  
4 flatten out your price signals by buying a flat  
5 rate over 12 months, we'll average it, and off you  
6 go.

7           I think there's a disconnect a little  
8 bit in the Commission's desires to use dynamic  
9 pricing, which requires in some sense pricing  
10 signals in real time, with the pressure from the  
11 consumer side, the load side, the residential  
12 side, to flatten that volatility.

13           And that's something that you're going  
14 to have to work out over time, but I do see some  
15 competing pressures there that may undermine the  
16 ability to actually use dynamic pricing on a broad  
17 scale, because of the consumer -- particularly the  
18 residential community's interest -- in flattening  
19 that volatility.

20           Regarding the question about long-term  
21 contracts, or how long they should be. Generally,  
22 we use ten years as a baseline that you should  
23 expect if you want to build new infrastructure.  
24 In my mind, actually the question is more of an  
25 empirical question that ought to be realized

1 through a competitive procurement.

2 It could be that somebody would take on  
3 a infrastructure development, green field  
4 generation project with a five year contract. I  
5 don't know. One of the things that I do know is  
6 we haven't had a series of procurement that would  
7 reveal that.

8 So what I think is foremost in my mind  
9 is the solution for those kind of questions, is to  
10 get in the mode of having periodic procurement, so  
11 we can identify what the competitors are willing  
12 to do in the marketplace, and that will help  
13 resolve many of the questions that you pose in  
14 your question.

15 Regarding the core non-core electricity  
16 market design. Yes, we think that that could be a  
17 good market design. We have supported that market  
18 design. We've also supported, though, that if and  
19 when the state imposes a resource adequacy  
20 requirement it be imposed on all those serving  
21 entities so they are the responsible entities.

22 I recognize Southern California Edison's  
23 concern in this regard. I think there are  
24 probably rules that could be made to protect their  
25 interest as well as protect the interest in the

1 marketplace for having alternatives and options.  
2 But the core non-core model is one that seems to  
3 be working on the gas side, and I think with  
4 proper rules it could work on the electricity  
5 side.

6           Regarding redundancy, and should we  
7 build into the system related to capacity, the  
8 issue about resource adequacy in many respects is  
9 how much insurance do you want to pay for to make  
10 sure that you mitigate volatility in the short-  
11 term markets. And that's a question that's going  
12 to vary by the load serving entity, probably.  
13 They might all have different questions on that.

14           The real key in our mind is making sure  
15 that the load-serving entities are responsible for  
16 the choice that they make on the level of resource  
17 adequacy. And hold them to that. And one of the  
18 downsides of being resource inadequate is you  
19 often face very high prices in real time as you  
20 try to fill that need.

21           In the short term, where we are now,  
22 we're trying to move from a rather chaotic market  
23 structure to a market structure that's been more  
24 stable and characterized with a resource adequacy  
25 requirement. We've supported that. We've

1     advocated at the PUC for adopting the, I think  
2     it's the Power Authority's recommendations on  
3     that, as a starting point.

4             And then, ultimately, you'll let the  
5     load serving entities determine what level of  
6     insurance they need. And I want to reiterate,  
7     too, on the question regarding the gas price  
8     spikes and the gas indices. For the most part,  
9     our impression is that the gas markets have been  
10    working over a number of years, as that was de-  
11    regulated and allowed for more competitive market  
12    forces to govern that.

13            There were some recommendations in a  
14    previous report that spoke to the need for greater  
15    state intervention in the gas markets. I think we  
16    filed comments back then, and I refer you back to  
17    those comments, where we indicated that, from our  
18    perspective, there didn't seem to be a need for  
19    greater state intervention, there just seemed to  
20    be a need for greater signals to the generation  
21    community about how much gas they're going to need  
22    to buy to procure, to serve load.

23            And this is where the long-term  
24    contracts come in. If you have a ten or 15-year  
25    contract, you're prudently going to buy gas to

1 support it, and you're going to make sure that you  
2 have it available to you when you need it.

3 What has been chaotic over the last  
4 couple of years is that nobody had the certainty  
5 that they were going to be there, needed in the  
6 next couple of years, so you might not buy as much  
7 gas on a long-term basis. Long-term contracts, I  
8 think, will ultimately solve those resource  
9 issues.

10 The other area that you highlighted in  
11 your questions is an area related to the  
12 environmental issues, and questions regarding  
13 environmental performance of the state energy  
14 system. And do the existing laws and regulations  
15 provide a basis for the Commission to require any  
16 power plant Applicant to agree to certain  
17 technology designs.

18 Here again, I want to identify the  
19 importance of defining the product that the state  
20 or the utilities want up front. If you want dry  
21 cooling as the technology for producing  
22 electricity, that can be prescribed in an RFP,  
23 that the utilities would let.

24 And then everybody would have the  
25 opportunity to offer up the best project that has

1 that specific technology, and it also would reveal  
2 the price to do that, through that competitive  
3 competition.

4 The worst thing is to have a competitive  
5 solicitation, have generators bid in that  
6 competitive solicitation and win, and then come to  
7 the Energy Commission at the siting process and  
8 have somebody impose a new type of technology on  
9 that generation, at that point in time, that's  
10 going to cost an additional \$40 or \$50 million or  
11 whatever it is.

12 That puts a huge cramp on the generators  
13 who were bidding in the RFP process at the  
14 beginning. So I would urge you, to the extent  
15 that you think these innovative technologies are  
16 important, you can integrate those into the  
17 procurement process, so that people can plan for  
18 it and prepare and design a project around it, in  
19 advance of, as a function of bidding.

20 Then, when they come to you, the issue  
21 about imposing that new technology will be  
22 irrelevant, it's already been costed into the  
23 project. It becomes a problem later, when you  
24 start adding on to the regulatory process, the  
25 siting process, a lot of regulatory overlay.



1           Because that crimps, obviously it would  
2   not have been anticipated. So I would just  
3   emphasize the need for, the extent to which the  
4   state or the utilities have desires on certain  
5   types of products, and technologies related to  
6   those products, specification in the RFP process  
7   provides a means to obtain it, but it's got to be  
8   clear and it's got to be consistent, and we  
9   recommend using competitive solicitation in order  
10  to make sure that you get the lowest cost product  
11  to serve that need.

12           And I'm happy to answer any questions  
13  you might have.

14           COMMISSIONER BOYD: Thank you, Mr.  
15  Kelly. Any questions? Commissioner Geesman.

16           COMMISSIONER GEESMAN: Steven, has your  
17  industry sat down, or attempted to sit down, with  
18  Edison or the other utilities to try and see if  
19  there is some common ground as to what agreed-upon  
20  rules in a core non-core market format would look  
21  like?

22           MR. KELLY: Other than the legislation  
23  last year that addressed this we really haven't  
24  had much dialogue. I think it's something that  
25  would be important and useful. We have been

1     working with the, some of the business  
2     associations in the state, that I think have had  
3     more extensive discussions with the utilities on  
4     this.

5             And we've supported those business  
6     groups on this model. But we'd be happy to work  
7     with them on this.

8             COMMISSIONER GEESMAN: Those are  
9     generally the customer groups, right?

10            MR. KELLY: Yes.

11            COMMISSIONER GEESMAN: It just occurs to  
12    me that, you know, for six or seven months now, a  
13    variety of people from all around the spectrum  
14    have at least acknowledged their willingness to  
15    entertain a core non-core system, and yet the only  
16    time dialogue appears to take place is in the heat  
17    of some legislation, or in the middle of the night  
18    in some bar somewhere. It would probably be --

19            MR. KELLY: They're the same, I thought.

20            COMMISSIONER GEESMAN: -- a constructive  
21    use of everybody's time.

22            MR. KELLY: I think that's a good  
23    observation. When legislation gets posed, it gets  
24    embroiled in that process, and things have a  
25    tendency to get haywire, and people get very

1 reactive. So I think that's a very good  
2 observation.

3 And along those same lines, you had  
4 asked a question which I forgot to respond to,  
5 which is whether legislative actions are needed  
6 going forward to meet the challenges that we have  
7 in this.

8 And there are a couple that I would  
9 recommend that we consider. And one is, I would  
10 agree with the comments earlier, that the siting  
11 process needs to be perfected -- and here I'm  
12 talking about the siting process for generation  
13 and mostly transmission. And the concept of one  
14 site transmission siting planning place is  
15 something that's floated around awhile.

16 And it now may be timely to have the  
17 pre-discussions before the Legislature on that  
18 issue. Because siting is going to be critical.  
19 And one of the components of siting may be an  
20 expansion of eminent domain authority, to allow  
21 alternative to acquire land to build transmission.

22 Or sites for generation might be needed,  
23 as determined by a state agency that thought it  
24 was important. So I think that would be a  
25 component of it. So that kind of legislation is

1 something that I think needs to be discussed.

2 I think the concepts need to be  
3 discussed prior to drafting the legislation, and  
4 obviously getting a suitable author who can manage  
5 that process. But we would certainly welcome the  
6 opportunity to sit down and talk about those kinds  
7 of issues with the utilities or anybody else on  
8 how to do that, and what are the components of  
9 that.

10 I know the Legislature is looking at,  
11 you know, kind of an energy bill for next year.  
12 The key Chairman of the committees that would kind  
13 of pull all the pieces together. So we've been  
14 thinking about this for some time now. And maybe  
15 through your leadership we could create a forum  
16 for that.

17 COMMISSIONER BOYD: Thank you, Steven.  
18 Mr. Hampton, are you set up? Okay, here's what  
19 I'm going to do. We have a gentleman here from  
20 the Cal ISO that has a time constraint.

21 And although I would have liked to have  
22 had him after the staff's transmission  
23 presentation, which I was presuming to do right  
24 after lunch, I will call on Mr. Kristov now.

25 And then we will break for lunch, and

1     then we will hear from Mr. Hampton and then we  
2     will hear from the staff on the transmission  
3     issue, and then we will hear from those folks who  
4     have indicated on their blue card they wanted to  
5     address transmission.

6             So, thank you very much Mr. Kristov for  
7     kind of going out of turn. But I recognize you  
8     have a time constraint.

9             MR. KRISTOV: Thank you very much, I  
10    appreciate the opportunity to speak. Good  
11    morning, Commissioners, and it's good to see a  
12    number of old friends here. I was very glad to  
13    see the scope and quality of this energy policy  
14    report.

15            Having worked at the Commission I've  
16    been well aware of the strength of this agency in  
17    being able to take a big picture view of  
18    California's electricity situation, and provide  
19    excellent policy recommendations.

20            And from the crisis, having lived  
21    through sort of the center of the vortex of it,  
22    I'm well aware that that's exactly what's needed  
23    at this point comprehensively across the various  
24    entities that are in the energy supply business,  
25    and the relationships among types of energy.

1           What I wanted to talk about specifically  
2   is resource adequacy, because that's an activity  
3   that's near and dear to our hearts with the new  
4   market design we're trying to put into place.

5           In the last couple of years my role at  
6   the ISO has been primarily to develop the market  
7   design proposal that ISO just recently filed at  
8   FERC, known as MDO2, market design 2002 -- we've  
9   even suggested that the name ought to change,  
10   since it's not '02 anymore.

11          But we decided that we'll keep one name  
12   for the project, and then once the project is  
13   implemented that name goes away. That proposal  
14   recognizes that a number of things were deficient  
15   in the original ISO market design, but in  
16   particular, and where it links up with resource  
17   adequacy is the point that resource adequacy is  
18   ultimately a real time concept.

19          It means that in real time there is  
20   enough power to keep everyone's lights on, to keep  
21   businesses functioning, and that that power is  
22   available at a reasonable and stable and  
23   predictable price, that there's not too much  
24   volatility in that price and so on.

25          And really, it's in real time that

1 resource adequacy becomes visible to households  
2 and to businesses, even though there's a lot of  
3 planning that goes into ensuring that that  
4 planning process unfortunately becomes most  
5 visible when it doesn't work.

6           So, from the ISO's point of view, again  
7 going back to our role in the whole statewide  
8 process, we believe starting with open access and  
9 really the restructuring that created the ISO, our  
10 business is real time dispatch of the system.

11           That's reliability and real time  
12 dispatch, which means that there's something there  
13 to dispatch when there's loadmaking demands on the  
14 system we have the resources available to us that  
15 we can issue instructions to and that will respond  
16 and that will meet the demand.

17           So, given that as a background, and I  
18 recognize that I'm repeating some things that you  
19 already understand and know, but I want to repeat  
20 them for emphasis, because I thin that, as the  
21 resource adequacy process goes forward, it's  
22 important to keep in mind this linkage between  
23 planning 20 years out and 10 years out and so on  
24 and ultimately showing up in real time and linking  
25 to the ISO real time markets.

1           When we originally created our MD02  
2   proposal that we filed in May of 2002, we had our  
3   version of an attempt to address resource  
4   adequacy, which essentially involved a month ahead  
5   review of load serving entities obligations, and  
6   how they met those obligations. It was known as  
7   ACAP, or available capacity obligation.

8           And while we don't necessarily believe  
9   that that's in every detail the right answer to  
10   the problem, we do believe that it has a number of  
11   concepts that need to be embedded in whatever  
12   right answers the state comes up with.

13           And at the request of state entities,  
14   ISO, in recognition of the jurisdictional issues,  
15   we removed that. So right now the proposal that we  
16   filed in July has some, what I would consider  
17   provisional types of obligations that relate to  
18   resource adequacy.

19           We are relying on a must-offer  
20   obligation created by FERC over two years ago. We  
21   are requesting that FERC extend that obligation  
22   into the day ahead time frame, so that we have  
23   more visibility on available resources on a day  
24   ahead basis.

25           And we are offering a type of



1    availability payment in the event that we have to  
2    commit resources that aren't otherwise committed,  
3    we would give them an availability payment as  
4    compensation for standing by to be available to  
5    serve load in real time.  These things are  
6    substitutes, and not necessarily very strong  
7    substitutes, but the best within the parameters we  
8    have to operate for a fully fledged resource  
9    adequacy program for the state.

10            So, as we look at the provisions in  
11    place, and the state of resource adequacy  
12    proceedings going on, we are left with what I feel  
13    is an open question about how much reliance will  
14    there be on spot markets, which ultimately  
15    translates availability of resources for the ISO  
16    to commit on a day ahead basis and to dispatch in  
17    real time.

18            And to the extent that we create rules  
19    and a situation that encourages reliance on spot  
20    markets, all the more is the risk on the ISO to  
21    ensure that we can keep the lights on.  And all  
22    the more is the tendency to place us in a position  
23    which we think places a state policymaking burden  
24    on us that we really shouldn't have, which is what  
25    decision do we make in real time when there is a

1 shortage?

2           Do we procure at any price in order to  
3 keep the lights on, because our mandate is  
4 reliability and we're going to make sure we can do  
5 it, including out of market purchases, going out  
6 of state to get supplies that are under no  
7 obligation to bid into California and may not --  
8 especially if they're aware that it may be a short  
9 situation.

10           Or is there a price at which we should  
11 stop making these out of market transactions and  
12 declare a stage three emergency and order  
13 curtailments? That's a very unpleasant situation  
14 to be in. And I think ultimately that's a piece  
15 of the policy guidance that needs to come out of a  
16 resource adequacy activity.

17           In that regard, in your report on page  
18 131, you've listed some key principles of resource  
19 adequacy. Number six on that list is the  
20 recognition of providing guidance to the ISO and  
21 load-serving entities as to what their real time  
22 behavior should be in the event of having a  
23 shortage in real time.

24           I believe the principles you've laid out  
25 there are very good ones, and I definitely endorse

1     them.

2                   And the only modification I should  
3     suggest is to make more explicit the fact that  
4     resource adequacy is and needs to be an integrated  
5     process that goes all the way from long-term 10 or  
6     20 years out, up to every moment in real time, and  
7     that somehow that has to be seamless in the sense  
8     that resources designated, procured in advance,  
9     have an obligation to participate in real time, to  
10    be scheduled on a day ahead basis in the ISO,  
11    and/or bid into the ISO market, be available for  
12    real time dispatch.

13                  So as a final note I would mention that  
14    another staff member at ISO has submitted some  
15    comments about the supply adequacy assessment, and  
16    your report has stated 2007 as a year to be  
17    concerned about.  Some of the comments that our  
18    staff person made suggested that there may be  
19    reason to be concerned even a little bit earlier  
20    than that.

21                  But even if we don't have to worry until  
22    2007 I think now is the time to provide the  
23    mechanisms that will get the required contracts in  
24    place, resources built, whatever, so that by 2007  
25    we don't have to worry.

1           That's the extent of my comments at this  
2 point. Be happy to answer some questions.

3           COMMISSIONER BOYD: Thank you. Any  
4 questions? Comments? Thank you very much for the  
5 input. Thank you for the ISO's participation in  
6 our process today.

7           With that, as I indicated, we're now  
8 going to break for lunch for an hour. When we  
9 come back I'll keep my commitment to Mr. Hampton,  
10 to let him make his presentation. Followed by the  
11 staff's presentation on transmission planning.

12           I've been asked by my loyal staff here  
13 to mention that, as a lunch option on Tuesday's  
14 there's a market across the street in the park.  
15 And for anyone that wants to walk to the park and  
16 find a couple of places to eat, there are luncheon  
17 options over there, or you can just go to all the  
18 other standard fare around here. Thank you, see  
19 you at 1:00.

20 (Off the record.)

21           COMMISSIONER BOYD: Back on the record.  
22 We'll pick up to where I said we would after we  
23 broke for lunch, and we're going to hear from Mr.  
24 Hampton from Marathon Oil Company.

25           MR. HAMPTON: Thank you, Commissioner.

1           COMMISSIONER BOYD: Who brought his own  
2 computer, his own projector, he's wired for sound.  
3 This is something.

4           MR. HAMPTON: The whole bit. I  
5 appreciate your patience here. We have a couple  
6 of maps here that help explain the gas  
7 transmission access issues, and a powerpoint is  
8 really the most appropriate way to do that. So I  
9 appreciate your indulgence.

10           As I said, I represent Marathon Oil  
11 company. And we are one of the LNG developers in  
12 Baja California, near Tijuana. And what I'd like  
13 to do today in addition to complementing your  
14 staff on an excellent job with their study and  
15 their assessment, I wanted to take it a couple of  
16 steps further and talk about some of the  
17 implications with particular respect to LNG.

18           So, with that, we'll get into the first  
19 slide. As I say, the first thing that I want to  
20 say is that Marathon is in general in agreement  
21 with a lot of the, not all but a lot of the issues  
22 that the CEC had put into their study.

23           I think that their views on markets are  
24 in line with our own views. And the other thing  
25 that we very much like to see is an integrated

1 approach to both gas and power. We think that's  
2 very encouraging, and the fact that you're looking  
3 beyond just the California border. I think that's  
4 very important for good results.

5 Secondly, we are, or thirdly, we are  
6 encouraged that there are others besides ourselves  
7 that see some value in bringing LNG into this  
8 region.

9 Fourth, we agree that long-term  
10 contracts have their place. And I'll talk a  
11 little bit more about this in a minute, but LNG  
12 certainly is a large investment, as was observed  
13 earlier today. The problem is that in many  
14 instances ten-year contracts are more a dream than  
15 a reality these days.

16 And looking at it from that perspective,  
17 what we're really after in many instances is  
18 liquidity, and the ability to find backup buyers  
19 if in fact one buyer on one particular day doesn't  
20 need the LNG.

21 And so I'm going to talk about the  
22 prospects for developing hubs, let's say in the  
23 Los Angeles city gate, which would provide a lot  
24 of the liquidity we need, and would probably  
25 shorten the term of some of these long-term

1 contracts that might otherwise be needed.

2           Lastly, I think we need to take a look  
3 at how we might optimize and reuse the existing  
4 gas pipeline system. There are issues of pipeline  
5 access, which right now LNG suppliers do not have  
6 access to either the San Diego system or to the  
7 SoCal system, and we think that needs to be  
8 addressed.

9           One of the things that LNG can also do  
10 is serve as a storage facility, close in. Ours  
11 particularly is very close to San Diego. It was  
12 mentioned this morning that San Diego has some  
13 problems in reliability, and having storage close  
14 in certainly has some appeal.

15           And lastly I'll mention gas quality. It  
16 is an issue because generally LNG, in the Pacific  
17 Basin, is high BTU content. Both Japan and Korea  
18 have typically liked high BTU gas, because it was  
19 transportation efficient. You could jam a lot of  
20 BTU's into a small area, and that's not going to  
21 work in California.

22           That being said, we do think the  
23 situation is manageable. There are lots of things  
24 that you can do to manage that BTU content. But  
25 we have overlapping jurisdictions. We have all of

1 the pipelines involved, which have their own gas  
2 quality specs, and some of them are overlapping.

3           Someone mentioned CARB this morning,  
4 they have a say in this, and potentially SCAQMD  
5 also have a say in that, and they're not all  
6 consistent. What we really need is some certainty  
7 as to what those standards are going to be, and I  
8 think that would help more than anything else.

9           With respect to LNG, our view is that  
10 LNG is a critical wedge supply that many of the  
11 traditional basins, with perhaps the Rockies  
12 excepted, are going to have a difficult time with  
13 keeping up with increases in demand.

14           And so you're going to have a bridge  
15 fuel here that gets us between now and the time  
16 that Alaskan gas comes on, which we believe is at  
17 least ten years, if not further, away.

18           And particularly on the west coast, I  
19 think that can be done in a relatively short  
20 period of time. San Diego's mayor came out with a  
21 statement earlier this year that they were looking  
22 for energy independence. I guess in some senses  
23 that's a laudable goal.

24           I don't know if you can ever be energy  
25 independent, but you can certainly reduce your



1 exposure to swings in supply, to disruptions from  
2 pipelines, by diversifying your portfolio. And I  
3 think that's what LNG really does.

4           There are lots of countries in the  
5 Pacific Rim that are in exactly the opposite  
6 situation. They have lots of natural gas reserve,  
7 but they have no market. And so the prospect of  
8 earning U.S. dollars, a hard currency, is very  
9 attractive to them.

10           Now certainly some of these companies  
11 have political instability. They have some issues  
12 that we might in other circumstances try to avoid,  
13 but we found -- we've been operating in countries  
14 like Libya and Syria and other areas -- and we've  
15 found that, with respect to petroleum revenues,  
16 regardless of who is in power, there is a very  
17 keen incentive to keep the money tap going.

18           And so, this may offer more stability  
19 than you first think. And secondly, if you -- as  
20 we are going to do -- have a diverse portfolio,  
21 you don't put all your energy eggs in one basket,  
22 you diversify the sources, that also offers some  
23 insurance against supply disruptions.

24           Now one of the appeals to Baja, I always  
25 get asked this question, why Baja, what is

1 particularly attractive about that. But it has  
2 infrastructure, it has existing pipe. It's brand  
3 new pipe, most of it was put in place, Eric's  
4 company put it in place here last fall, and it  
5 wires up the Baja area to the U.S. gas grid.

6 Now right now it's flowing from east to  
7 west. But forget about who wins the LNG beauty  
8 contest, whether it's Semptra, or whether it's  
9 Shell, or whether it's Marathon, Chevron, Texaco,  
10 I think the chances are very good that, with the  
11 variety of different approaches we have, they're  
12 all different, all different locations.

13 Some are offshore schemes, some are  
14 onshore schemes, that one of us is going to have  
15 the right combination and bring LNG in here.

16 So I would agree with Semptra's comment  
17 that we ought to be looking at perhaps the impact  
18 of an additional 500 to 700 million cubic feet a  
19 day in the back door, in the south end of the  
20 system. And I'm going to talk a little bit more  
21 about that in the next couple of slides.

22 If LNG comes in that flow then reverses.  
23 And as some of you know, there is an open season  
24 going on, the Semptra and PGT pipelines are right  
25 now conducting an open season, which would do just

1 exactly that, which would reverse the flow,  
2 bringing LNG in here, and bring it up to Blythe.

3 Now when I first started looking at this  
4 project a couple of years ago, my first response  
5 was well, why would you want to do that, why would  
6 you want to go all the way around -- I mean,  
7 nothing wrong with Blythe Ehrenberg, but it's not  
8 exactly in the center of the universe.

9 Wouldn't it make more sense to bring it  
10 up into San Diego Gas and electric system? Well,  
11 for a variety of reasons, this point right here at  
12 Otay Mesa is closed off. And so that's not a  
13 realistic option at this point.

14 The open season deadlines are upon us  
15 here on the 15th of September. All of the LNG  
16 producers are going to have to submit bids for  
17 capacity to these pipelines, and I doubt if we're  
18 going to have this issue of access to Otay Mesa  
19 worked out by then.

20 Now one of the things that all of us  
21 require is market access. Consumers want access  
22 as well. So it's a push/pull kind of process.  
23 But the last thing we want to have happen is to  
24 haul LNG 7,000 miles across the Pacific, and then  
25 to have it stranded on the beaches of Tijuana.

1 That doesn't make any sense for anyone.

2           So we need firm transport, we need  
3 access to markets. And as I said earlier, right  
4 now we don't have the right to lease capacity on  
5 either the San Diego or the SoCal systems. There  
6 are some things going on right now before the CPUC  
7 to try to address that, but that is a key issue  
8 for all of us.

9           What we would like to see, in addition  
10 to this sort of flow, which certainly is great for  
11 Palos Verdes and the power plants out there, but  
12 we'd like to see Otay opened up, and perhaps the  
13 Imperial Valley line, so that others could get  
14 benefit.

15           And the thing that is amazing to me is  
16 that Los Angeles does not have a city gate price.  
17 San Francisco has a city gate price, Chicago has a  
18 city gate price, New York has a city gate price,  
19 why not Los Angeles?

20           And think about it for a minute, if  
21 you're a consumer in Los Angeles, and you're tying  
22 to second-guess where is that gas going to come  
23 from, is it going to come from the Rockies, is  
24 that going to be the cheapest source in 2007?  
25 Well, maybe, maybe not.

1           Is is going to be the San Juan Basin,  
2   that's traditionally been the cheapest source.  
3   Well, maybe, maybe not. Is LNG going to come in?  
4   I hope so, but I've been wrong before. There's a  
5   risk associated with holding that capacity, and  
6   taking a risk on one of those receipt points.

7           And it makes more sense to me for LNG  
8   suppliers to hold that capacity going up here.  
9   Create a city gate price, consumers can shorten  
10   their path, and they've got more choices, and now  
11   they have two backbones, not just one. So they  
12   have competition, they have an alternative to the  
13   El Paso pipeline, which has caused us all so many  
14   problems.

15          California, I know, has had painful  
16   experience with El Paso. As producer, I want to  
17   say we've had the same problems. That's probably  
18   one of the most difficult pipes to ship on. So it  
19   works both ways.

20          What are the benefits to California for  
21   this kind of a scheme? Well, obviously opening up  
22   the Otay Mesa site could reduce dependence on El  
23   Paso, as I mentioned. It could reduce existing  
24   capacity on San Diego Gas and electric.

25          Now, San Diego Gas and Electric has

1 never been designed as a mainline, off-system  
2 pipeline. It was a distribution system. It was  
3 designed to flow from north to south. But there's  
4 no reason why that can't be turned around and put  
5 into mainline service. Indeed, there are a few  
6 steps that have already been taken in that  
7 respect.

8           The other thing that it does, is if you  
9 now bring gas in this direction it unloads the  
10 SoCal backbone. You're now able, with no  
11 additional cost, to reuse that to bring in  
12 additional gas.

13           Secondly, benefits for California.  
14 There are, as you mentioned, as the staff has  
15 pointed out, there are a lot of power plants  
16 either under way or already built in the Palo  
17 Verde area. And they may take gas and use it that  
18 would otherwise flow west into California. And  
19 that's good.

20           However, it would also be nice to be  
21 able to fill that in. And that's exactly what LNG  
22 could do, it fills that void. And so it  
23 complements what's going on the Palo Verde area.

24           Now the other question I always get is  
25 what impact LNG will have on SoCal border prices.

1 And I don't need to tell you that has been a  
2 difficult situation. We have seen a very rough  
3 ride. Lots of volatility, very high prices. And  
4 these high prices are not good for you, but  
5 they're not good for producers as well.

6 They're too high right now. We have  
7 killed a lot of demand. And what's made it even  
8 more difficult is that, to use an old song,  
9 California prices have kind of gone their own way.  
10 There has been a disconnect often between the  
11 Henry Hub benchmark gas price, and what's gone on  
12 at the SoCal border.

13 And there are a variety of reasons for  
14 that. Be it pipelines, the new pipeline certainly  
15 had its impact. The section 29 San Juan coal seam  
16 boom, back in the mid-90's, for those of you who  
17 remember that. And obviously the California  
18 energy prices. And that often compounds the  
19 volatility that's already inherent in the Henry  
20 Hub price many times over.

21 What is needed? Well, alternative to  
22 the El Paso pipeline would certainly be a good  
23 place to start. This is interesting, I had no  
24 idea what Sempra was going to present this  
25 morning. Their numbers are very close to mine.

1           This is intended to show you kind of the  
2   threshold price. At what point does LNG start to  
3   make economic sense to producers over in Indonesia  
4   or Alaska or South America. And if you allow  
5   producers a 50 cent wellhead net back, that's not  
6   a lot, but it's more than, better than leaving it  
7   in the ground.

8           Then you can bring natural gas in to the  
9   SoCal border at approximately \$3.75. Then you're  
10   close, very close to the SoCal price.

11           VOICE: What are you pricing?

12           MR. HAMPTON: I'm pricing LNG delivered  
13   into the SoCal border. And I am adding up these  
14   various cost components from public sources,  
15   allowing a 50 cent net back to producers overseas.  
16   That includes shipping, that includes re-gas, it  
17   includes liquefaction, all of the cost components.

18           Now is this a forecast? No, it isn't.  
19   It's just an illustration that shows the impacts  
20   of improved economics, reduced costs, larger  
21   vessels, and if you compare that 3.75 with the  
22   Henry Hub price, you can see that that fits very  
23   well.

24           There are often many times where this  
25   can compete. And by adding additional capacity, I



1 will argue, will reduce volatility in California.

2 And in conclusion, and I apologize for  
3 taking all this time, I do believe that LNG  
4 supplies can lower energy costs throughout Baja  
5 and California.

6 California consumers will benefit from  
7 enhanced competition, lower prices, and a  
8 diversity of supply sources. Existing pipeline  
9 infrastructure ought and can be rescued and  
10 upgraded, providing LNG shippers are allowed  
11 access to certain basic pipelines.

12 The creation of a Los Angeles city gate  
13 hub I think is key to this. Because, like many  
14 other cities, this will promote competition and it  
15 will lower costs to consumers. And it will also  
16 provide the liquidity we need, so that perhaps we  
17 don't have to have ten year terms.

18 Lastly, LNG provides some storage  
19 services that you otherwise wouldn't get. And  
20 with our particular facility we're also looking at  
21 increasing efficiency on the power gen side.  
22 We've got an integrated gas, water, and power  
23 concept, and putting those all together in one  
24 site makes a lot of sense from an efficiency  
25 standpoint.

1           With that, I thank you for your time,  
2   sorry to drop the mike here, and I'll take any  
3   questions.

4           COMMISSIONER BOYD: Thank you. One  
5   question. On your sources of gas and LNG for the  
6   west coast, you didn't reference LNG from Alaska.  
7   You did reference arctic gas, but I think that was  
8   just natural gas via some pipeline, unless I read  
9   it wrong.

10          What's your view on LNG from Alaska,  
11   since the Alaskans have taken a lot of political  
12   and otherwise action during the last year to make  
13   that a reality?

14          MR. HAMPTON: There are two supply  
15   basins for Alaska. The north slope is the one  
16   that I mentioned in that portfolio chart. And for  
17   a variety of reasons I don't think that is an  
18   economic alternative for LNG. Constructing a  
19   pipeline from the north slope down to northeast of  
20   Alberta, from a producer's standpoint, makes a lot  
21   more sense.

22          With respect to Cook Inlet supply -- and  
23   we have been a Cook Inlet producer for a long time  
24   -- it makes a lot of sense from a variety of  
25   standpoints. It is probably the closest supply.

1 Indeed, when we started looking for markets for  
2 that gas back in the 1960's, California was  
3 certainly one of the first places we considered.

4 It also has the benefit of being very  
5 high quality. It is 99 percent methane. There  
6 would be no issues of gas quality with that gas.

7 The problem is that it's contracted with  
8 the Japanese, with Tokyo Gas and Tokyo Electric,  
9 and it would not be available until 2009 at the  
10 earliest. After 2009 certainly it would be in the  
11 mix.

12 COMMISSIONER BOYD: So you don't see the  
13 north slope to Valdez pipeline and LNG facility as  
14 economically viable?

15 MR. HAMPTON: No, I don't sir. The  
16 producers who have owned those reserves have shown  
17 very little interest. The people that are  
18 developing that project, Yukon Pacific in  
19 particular, have been working on that for years.  
20 But they own no reserves up there.

21 If you look at it from the perspective  
22 of a producer, of a north slope producer, his best  
23 net back is an overland pipeline that would  
24 connect into pipes in Alberta, and then would go  
25 from there to California or Chicago.

1           COMMISSIONER BOYD:  If they get the  
2   subsidies in the energy bill.

3           MR. HAMPTON:  Well, that's a whole  
4   different issue, yes.

5           COMMISSIONER BOYD:  Thank you.  Any  
6   other questions?  Chairman Keese.

7           CHAIRPERSON KEESE:  I noticed in the  
8   Semptra presentation this morning that, I guess  
9   you'd say the base case, was a billion cubic feet  
10  per day.  And they suggested that, as an  
11  alternative we should look at half of that, 500.

12           You were using the term 500 or 750, and  
13  you're talking only about the use of this gas in  
14  the U.S.  When you're talking about 500 or 750 are  
15  you talking about a billion cubic feet and then a  
16  portion of that is going to stay in Mexico?

17           MR. HAMPTON:  Exactly.  This is a bi-  
18  national project.  Most of them are, with the  
19  exception of Mitsubishi's at Long Beach.  And a  
20  significant amount of this gas would be burned in  
21  Baja.  In fact, if you ask the Mexican  
22  authorities, they believe that this ought to be  
23  going to Baja first and then California gets  
24  what's left over.

25           Our projections show a very healthy and

1 very growing demand for natural gas in that part  
2 of the world. Population growth south of the  
3 border has been phenomenal, all along the border.  
4 They're looking at population growth of 7 or 8  
5 percent per year, and they're already underserved  
6 on infrastructure right now. They need both  
7 natural gas and power.

8 And so, to answer your question, a BCF a  
9 day for benchmarking purchases I think would be an  
10 excellent start, but probably half of that is  
11 going to stay in Mexico.

12 CHAIRPERSON KEESE: So it would be an  
13 appropriate assumption for anybody who's planning  
14 an LNG terminal on the west coast is thinking in  
15 the terms of a BCF a day?

16 MR. HAMPTON: Yes, sir. Ours is  
17 slightly smaller than that to begin with, I think  
18 Sempra's is as well. Shell's is 1.3 BCF a day.  
19 Eric is going to give you a rundown on the various  
20 sizes and proposals here later on.

21 CHAIRPERSON KEESE: And your, we're  
22 certainly not going to see all the terminals that  
23 are in discussion built on the west coast. In  
24 your analysis, do you have a number? Can we  
25 handle two BCF a day? Let's say there were two

1 terminals built on the west coast at a billion a  
2 piece, would that probably discourage a third?  
3 Let me phrase it that way.

4 MR. HAMPTON: It would. In 2007 it's  
5 tough to see how there's enough market for two BCF  
6 a day additional.

7 CHAIRPERSON KEESE: For two?

8 MR. HAMPTON: For two billion cubic feet  
9 a day, regardless whether it's one terminal or two  
10 terminals.

11 CHAIRPERSON KEESE: Okay. Thank you.

12 MR. HAMPTON: Now, run the clock forward  
13 ten years, yes there's room. But not in 2007 when  
14 these are --

15 CHAIRPERSON KEESE: Between Mexico and  
16 the U.S.?

17 MR. HAMPTON: Between Mexico and the  
18 U.S.

19 CHAIRPERSON KEESE: Thank you.

20 COMMISSIONER BOYD: Commissioner  
21 Geesman.

22 COMMISSIONER GEESMAN: Is there anybody  
23 signing ten year contracts?

24 MR. HAMPTON: No sir.

25 COMMISSIONER GEESMAN: That's not going

1 to hold you up, is it?

2 MR. HAMPTON: I don't think so. That's  
3 why we are really centered in on obtaining  
4 liquidity here. As I say, I think there's a  
5 tradeoff between liquidity and term. And frankly,  
6 I've been in the gas business a long time, and  
7 there was a lot of effort to go from long-term, 20  
8 year, fixed price contracts, to almost a total  
9 reliant on the spot market, which is, you know,  
10 the pendulum swings both ways.

11 We're clear over the other extreme now,  
12 but I don't think we'll ever get back to a 20  
13 year, or even a ten year. I think that's  
14 dreaming.

15 COMMISSIONER GEESMAN: Thank you.

16 COMMISSIONER BOYD: Thank you very much.  
17 I may circle back to Mr. Pak later on to ask more  
18 questions about Semptra's LNG facility, but not  
19 now. I promised the staff that they'd get their  
20 transmission presentation next, so we'll do that.  
21 Judy, you're making the presentation?

22 MS. GRAU: Yes. Okay. As the title  
23 says, I'm giving a presentation on upgrading  
24 California's transmission system. And we do have  
25 a report available, there should be enough copies

1 for everybody on the back table.

2 I'd like to begin by first mentioning  
3 that this report was a collaborative effort among  
4 several members of CEC staff and their  
5 consultants, including Lynn Alexander, Demy  
6 Bucaneg, Marianne Causle, Mark Hesters, Linda  
7 Kelly, Don Kondoleon, Clare Laufenberg Gallardo,  
8 Jim McCluskey, Bob Strand and myself.

9 And we had the good fortune, or the  
10 misfortune depending on your perspective, of  
11 publishing this report just 24 hours after the  
12 east coast blackout. So I think this report is  
13 probably becoming a little more important and  
14 being a little more scrutinized than it would have  
15 been had it happened earlier.

16 And I think this underscores one of the  
17 recommendations in our report, where we mentioned  
18 that one of the factors that should be considered  
19 in these proceedings, the update proceedings, is  
20 incorporating low-probability, high-impact events  
21 in the analysis, and this is a perfect example of  
22 that.

23 And so, this is a brief rundown on what  
24 I'd like to cover in this presentation. And if  
25 you've read the report you'll notice this kind of



1 follows chapter by chapter the outline for the  
2 white paper.

3 Obviously, this report is in support of  
4 the Electricity and Natural Gas Assessment Report,  
5 and we are fulfilling the requirements for the  
6 Integrated Energy Policy Report pursuant to SB  
7 1389, which requires us to assess California's and  
8 regional transmission system in terms of its  
9 availability, reliability, and efficiency.

10 And as we began working on the whit  
11 paper the state Energy Action Plan gave us further  
12 direction. It says that the state will  
13 reinvigorate it's planning, permitting, and  
14 funding processes to ensure that necessary  
15 improvements and expansions to the bulk  
16 electricity grid are made on a timely basis.

17 And in particular, the plan has language  
18 that states the following action, "the agencies  
19 will collaborate in partnership with other state,  
20 local, and non-governmental agencies with energy  
21 responsibilities in the California Energy  
22 Commissions integrated energy planning process, to  
23 determine the statewide need for particular bulk  
24 transmission projects."

25 "This collaboration will build upon the

1 California independent system operators annual  
2 transmission plan, and evaluate transmission  
3 generation and demand side alternatives. It's  
4 intended to ensure that state objectives are  
5 evaluated and balanced in determining transmission  
6 investments that best meet the needs of California  
7 electricity users."

8 And so what we did in our approach to  
9 this white paper was to identify some of the major  
10 transmission issues, and we broke them up into  
11 physical and operation problems, and then in a  
12 separate chapter planning and permitting problems.

13 And then look for potential solutions,  
14 those that are well underway or not so far  
15 underway, and look out a little bit further and  
16 provide recommendations for state actions.

17 And so some of the existing transmission  
18 system problems, physical problems, congestion on  
19 the major paths. We looked at the major  
20 intrastate paths, which are Path 15, the congested  
21 portion of that from Los Banos to Gates, and Path  
22 26 from Midway to Vincent.

23 And then the two major interstate  
24 transmission paths, Path 45 from Mexico into  
25 southern California, and Path 46 from Arizona and

1 Nevada into southern California.

2 We also looked at constraints in load  
3 centers, with the two largest load liability  
4 areas, San Francisco Bay Area and San Diego. I  
5 think Al Alvarado mentioned earlier that a local  
6 reliability area is characterized by insufficient  
7 generation to support competitive electricity  
8 markets within that area, as well as limited  
9 transmission capacity to import electricity from  
10 outside the area into the load center.

11 And the other thing we wanted to do was  
12 look at access to renewable resources because,  
13 pursuant to SB 78 and 1038, which created the  
14 renewable portfolio standards program, the IOU's  
15 will be increasing their procurement of renewables  
16 up to 20 percent -- one percent a year until they  
17 reach 20 percent. The legislation had a goal of  
18 2017, but I know the Energy Action Plan has a goal  
19 of accelerating that to the year 2010.

20 And so we looked at four projects that  
21 we considered to be of immediate concern, and  
22 immediate concern was defined as projects that  
23 have either been denied a CPCN, a Certificate of  
24 Public Convenience and Necessity, or are in the  
25 CPCN process at the PUC right now, or will likely

1 file one in the year 2004.

2 And so the four projects we looked at --  
3 Valley Rainbow, which was denied a CPCN, Devers-  
4 Palo Verde two, we have indications that Southern  
5 California Edison may file in 2004, the Jefferson-  
6 Martin project in the San Francisco area, which is  
7 currently going through the CPCN process, and then  
8 Tehachapi, also a Southern California Edison  
9 proposal for the year 2004.

10 And some of the recommendations that  
11 arose from our analysis I'll discuss later when we  
12 talk about recommendations.

13 And so we've identified some of the  
14 major planning and permitting problems, as we've  
15 heard from folks earlier, there are significant  
16 problems in effective planning and permitting.  
17 And we've noted these problems over a number of  
18 years, and they have been brought up in the Little  
19 Hoover Commission report of 1996 and in other  
20 venues.

21 But basically permitting jurisdictions  
22 are fragmented and overlapping, environmental  
23 analyses have been inconsistent in the past, the  
24 CPCN process does not adequately address regional  
25 and statewide benefits from projects because of

1 the perspective of looking strictly at ratepayer  
2 benefits and costs, and methods to implement  
3 public participation have been well, let's say  
4 there's room for improvement, they could be  
5 improved.

6 And so some of the state actions to  
7 address these problems. Obviously, SB 1389 now  
8 provides for the collaborative identification of  
9 transmission system expansion needs and requires  
10 us to make state findings on total benefits and  
11 costs of projects that can be used by decision-  
12 makers in the permitting process.

13 The Energy Action Plan, as we've noted,  
14 collaboration between the PUC, the Energy  
15 Commission, and the Power Authority states that  
16 the findings of need for transmission projects in  
17 the IEPR process should be used by the PUC in  
18 their CPCN process.

19 And additionally, we have an agreement,  
20 the Energy Commission and California ISO are  
21 working on a Memorandum Of Understanding to  
22 participate in each other's processes.

23 And so our overriding recommendation is  
24 that we implement a transmission project  
25 proceeding in the IEPR update process. This would

1 be the 2004 prcoess, this would occur after the  
2 final report goes to the Legislature on November  
3 1st.

4 And we haven't totally developed the  
5 entire process, but this is basically what we are  
6 thinking at this time, that we would hold a pre-  
7 update workshop with the stakeholders, to solicit  
8 their input on possible projects that should be  
9 examined in the 2004 update process.

10 Develop and employ assessment methods  
11 that consider broader strategic benefits as we  
12 noted, low-probability high-impact events and  
13 such.

14 We'd like to complete the proceeding in  
15 somewhere from six to ten months, and we're  
16 drawing upon our experience with generation siting  
17 cases to come up with process that meets  
18 everyone's need, and then again provide the  
19 results to the PUC for use in their CPCN process,  
20 where the determination of need would be made in  
21 our process, and they would not need to revisit it  
22 in their process.

23 And so, specifically for the four  
24 projects that we said were of concern, our  
25 specific recommendations are that we understand

1 SCE is considering some alternatives to Valley  
2 Rainbow, and if they are in fact ready to file for  
3 CPCN approval in the year 2004 we recommend that  
4 the assessment of project cost and benefits, and  
5 project need, be conducted in our IEPR update  
6 process.

7 And similarly, for Devers-Palo Verde  
8 two, if SCE is ready to file, that that assessment  
9 of cost and benefits and project need be done in  
10 our venue.

11 With respect to Jefferson-Martin, as I  
12 noted earlier, they are alert going through the  
13 CPCN process and because that schedule does not  
14 fit with our schedule we recommend that the CPUC  
15 keep going through that process and we would not  
16 do anything here at the Commission.

17 And then on Tehachapi, staff also  
18 recommends that the assessment of project cost and  
19 benefits and alternatives be conducted in the IEPR  
20 update process.

21 And one other recommendation that came  
22 out of a collaborative workshop that the Energy  
23 Commission held with the League of Women Voters on  
24 June 12th, the consensus view that emerged is that  
25 it's really essential to include the public in the

1 transmission planing process so there's a clear  
2 understanding of the facts about the process and  
3 the project's costs and benefits and impacts and  
4 alternatives that were investigated.

5           And so again in the 2004 update we  
6 recommend that we identify the most effective  
7 methods to implement public participation in our  
8 process and ensure that community impacts  
9 associated with transmission expansion are  
10 considered.

11           And that concludes my presentation.

12           COMMISSIONER BOYD: Thank you, Judy.

13 Questions from Commissioners and Advisors?

14           CHAIRPERSON KEESE: I have one question.  
15 You focus on four transmission line projects, and  
16 I guess that's what we see in a five-year  
17 timeframe, something like that?

18           MS. GRAU: I'm not sure that we actually  
19 set -- do we have a timeframe cutoff?

20           CHAIRPERSON KEESE: Well, I'm just  
21 wondering how other needs, that are a little  
22 longer term, let's say all the Palo Verde  
23 generation, is that all subsumed under Devers? Or  
24 is it going to be discussed in the discussion of  
25 Devers?



1           MR. KONDOLEON: This is Don Kondolean, I  
2 am the Transmission Program Manager here at the  
3 Commission. When we undertook the idea of  
4 developing a process that would move forward in  
5 2004 for the IEPR update we indicated that we  
6 would only consider those projects of what we  
7 called immediate concern, and those would be ones  
8 we had to take action on now.

9           Usually the time frame for regulatory  
10 action leading to the construction and ultimately  
11 laving the project online could be in the five-  
12 year window, on the long side maybe the seven-year  
13 window. So we were looking at projects, again in  
14 the time frame starting, you know, again having  
15 projects online within five years of the -- or  
16 less -- of the date of us taking action in the  
17 process.

18           But to get to the bigger question, which  
19 is well, what do you do about all of that  
20 potential stranded generation at Devers, I mean,  
21 we are trying, again, to coordinate our activities  
22 with those at the ISO.

23           You may be well aware that they are  
24 doing an extensive investigation through their  
25 step process, and I think that we need to see the

1 outcome from that process, and what we've built in  
2 to our so-called coordinated planning activity is  
3 to have the output from the ISO's long-term  
4 planning process feed into our IEPR process.

5 Of course this time, being that it was  
6 the initiation of our initial IEPR, we didn't have  
7 the benefit of actually having that input in this  
8 cycle. Hopefully by the next cycle we would be  
9 able to benefit from that.

10 So the answer is that we've had to take  
11 a look at problems, as I said, Commissioner Keese,  
12 the ones that we felt were of immediate concern  
13 right now. We've spoken to I think all of the  
14 Commissioners here and got a consensus that those  
15 are the ones we could move forward with.

16 However, we are leaving the door open,  
17 as Judy mentioned, to having a pre-update  
18 workshop, where we would solicit comments from the  
19 stakeholders with regard to the projects that we  
20 would be, could potentially be looking at in the  
21 update process in 2004.

22 CHAIRPERSON KEESE: So, one of the  
23 things -- let me paraphrase here -- one of the  
24 things that we would want to make clear in this  
25 IEPR is that we're looking at selected projects,

1 California specific, that we can deal with in a  
2 short time frame, and that discussions of major  
3 western transmission grid and the relationship  
4 with California to that grid is being postponed  
5 for discussion in subsequent IEPR's?

6 MR. KONDOLEON: Well, again, I look at  
7 the Devers-Palo Verde two project, and that's one  
8 that has regional ramifications, and it is  
9 included as potential projects for us to consider  
10 in the IEPR.

11 So, again, if you look at the  
12 projections certainly, at least in the short term,  
13 adding capacity to the Path 46, through the  
14 addition of Devers-Palo Verde two, would satisfy  
15 requirements out a certain number of years.

16 Is is four years, five years, six years,  
17 seven years, I can't tell you right now, but  
18 certainly it helps to address some of the problems  
19 that could exist in the absence of such a project.

20 CHAIRPERSON KEESE: Characterize what  
21 we're doing to deal with a robust western grid.  
22 Are we leaving that to other bodies to handle?  
23 And we're just not going to comment. Or is it  
24 incorporated in our discussions?

25 MR. KONDOLEON: Well, I think I would

1 say that we're interested in pursuing such a  
2 thing. Are we doing it independent? No. I think  
3 we need to continue with what we have been doing,  
4 which is participation through the SSG-WI group,  
5 through work that we had originally worked on back  
6 in 2001 with the Western Governor's Association.

7 I think, on the regional side, that's  
8 where the work's going to be done. I doubt  
9 seriously it's going to be done right here at the  
10 Commission. With regard to those decisions we  
11 have to do it in coordination with the other  
12 regional entities.

13 I think, again, what staff was looking  
14 at was those projects, including inter-state  
15 projects, they felt had a potential impact on  
16 California in what we consider to be the near  
17 term, not the long term.

18 And again, I think we would, in the next  
19 IEPR, rely heavily on the work that would be done  
20 through the ISO long-term planning process, as an  
21 input to our process at looking at what sort of  
22 fixes we believe are necessary, again with regard  
23 to California's interconnection to the western  
24 grid.

25 CHAIRPERSON KEESE: Okay, let me try it

1 one more -- in this one we're going to deal with  
2 specific issues, and if the IEPR Committee is  
3 making a recommendation, it would be that the  
4 broad issue of the robustness of the western grid  
5 is continuing in other forums. And California  
6 should continue to participate in those forums?

7 MR. KONDOLEON: Absolutely. And as you  
8 know, this Commission is actively participating in  
9 a number of those forums, and I think we would  
10 recommend that we continue to do that. I think  
11 the key is us coordinating our analytic timeline  
12 with the timeline of other entities.

13 I mean, the results of these analyses,  
14 these studies, are always dependent upon the  
15 assumptions that go in. It would be nice to be  
16 able to dovetail the assumptions that we come up  
17 with here with regard to demand assumptions, fuel  
18 price assumptions, generation and retirement  
19 assumptions, those are all -- and how about  
20 renewable development assumptions -- I mean these  
21 are all key drivers in any sort of regional  
22 analysis that'll be done, if by us or by someone  
23 outside of California, and I think the key is that  
24 we link the most credible assumptions that we  
25 have, which is what we've just developed in this

1 IEPR process, and try to move it forward to those  
2 forums that are continuing those assessments.

3           So that's what we're trying to do or  
4 look at in the next IEPR, is to coordinate our  
5 development of assumptions, bring those to the ISO  
6 so they can be utilized in their long-term  
7 planning process, and hopefully we all benefit  
8 from using consistent assumptions.

9           And as Judy mentioned earlier, we need  
10 to work on the development of a common analytical  
11 method that people are able to accept as being  
12 able to provide what the true value of  
13 transmission projects are, given the high range of  
14 uncertainties in a lot of these areas.

15           CHAIRPERSON KEESE: Thank you. I just  
16 think it's going to be important that we reference  
17 this in our document. We're going to focus on the  
18 specific project, but I think we have to reference  
19 the overall context, too.

20           MR. KONDOLEON: Absolutely.

21           COMMISSIONER BOYD: Okay, thank you  
22 staff. No further questions up here, we'll turn  
23 to the audience again. I have Joe Kloberdanz of  
24 San Diego Gas and Electric. And Joe, you correct  
25 your name if I clobbered it here.

1           MR. KLOBERDANZ: That wasn't bad. I was  
2   ten before I could pronounce it. Joe Kloberdanz,  
3   and I'm the manager responsible for electric case  
4   management for the Semptra Energy utilities, the  
5   not as interesting side of the Semptra Energy  
6   companies. Three points on electric transmission,  
7   and one request. And I should be able to do this  
8   fairly quickly.

9           I was pleased to note in the Electricity  
10   and Natural Gas Assessment Report that the intent  
11   is described here to arrive at a situation where  
12   we find need for a transmission line once. And I  
13   would ask that whatever we do -- first let me say  
14   that the notion of collaboration, consensus-  
15   building, who can argue with that.

16          But let me just ask that, whatever you  
17   do with this report on this issue, that you arrive  
18   at a recommendation to the Legislature that has us  
19   finding need once, and does that in about 12  
20   months or less. You have in your draft some  
21   recommendations that seem well-intentioned in that  
22   very direction, and I want to encourage that. One  
23   time for need. About 12 months is what it should  
24   take.

25          A third point. Some agency, presumably

1 still the Public Utilities Commission, will be  
2 responsible for the environmental review of these  
3 projects. And I would encourage the collaborating  
4 agencies to do whatever they can with respect to  
5 the environmental branch, the environmental staff  
6 at the Public Utilities Commission.

7 Those poor folks work hard, they're  
8 well-intentioned, they're under-staffed as much as  
9 I can imagine. And they have to deal with some  
10 kind of Byzantine process to contract with the  
11 consultants they need to get the environmental  
12 documents they need to have developed.

13 There's probably good reasons why that  
14 process is difficult, but we need to address that  
15 to. These folks need to be able to get the work  
16 done that we're asking them to do. And I will not  
17 beat up on them, these folks work hard. And  
18 they're well-intentioned. But there's just not  
19 enough of them.

20 And I realize I'm talking at a time that  
21 the state budget's got problems. But if we're  
22 going to make these things happen we need to  
23 allocate resources to deal with that.

24 Those are my three points. The request  
25 is a minor thing, but it comes from a PTO, a Proud



1 Transmission Owner, and we would just ask that on  
2 pages 27 and 38 of the report that was just  
3 described for us, that there's a reference to  
4 SDG&E having outages occurred frequently in 2000  
5 and 2001.

6 That's true. I was in our emergency  
7 operation center when those outages occurred. I  
8 would just ask that somehow it be noted that those  
9 outages occurred frequently because they were  
10 directed by the ISO as a result of statewide  
11 rolling blackouts.

12 Thank you very much.

13 COMMISSIONER BOYD: Thank you. Any  
14 questions, comments? Commissioner Geesman.

15 COMMISSIONER GEESMAN: I guess I would  
16 encourage you to maintain an open mind about where  
17 any jurisdictional issues ultimately should be  
18 resolved. And I would strongly encourage you and  
19 your colleagues at the other PTO's to take a blank  
20 piece of paper and attempt to design a system that  
21 would work the way you'd like to see it work.

22 Don't have any presumptions going into  
23 it as to any particular virtues in the status quo  
24 configuration. I'm not certain there are very  
25 many virtues in the status quo. But you have an

1 opportunity now, I suspect as never before, to put  
2 your thoughts on that blank piece of paper.

3 And I can assure you we will be doing  
4 that as well. But I wouldn't carry forward any  
5 fixed notion of how things have to be because  
6 that's the way they have been. We haven't done a  
7 good enough job in providing for these facilities  
8 for the status quo to have any presumption of  
9 longevity at all.

10 MR. KLOBERDANZ: Appreciate the advice.

11 CHAIRPERSON KEESE: Let me mention one  
12 thing also. In either late December last year or  
13 early January this year, at a broad conference --  
14 CFEE conference I believe -- dealt with  
15 specifically the issue of transmission -- the  
16 suggestion was made by a third party, not one of  
17 the administrators and not one of the utilities --  
18 that the appropriate way to handle transmission  
19 siting was that for the ISO to decide need, for  
20 the Energy Commission to decide appropriateness,  
21 and for the PUC to decide who paid for it.

22 There was generally, you know, that's a  
23 real thumbnail sketch, but there was broad support  
24 across the board for moving towards something like  
25 that. Commissioner Geesman is very actively

1 involved in how we get there, and I think there's  
2 an acknowledgment that if the PUC system can't  
3 handle that, then we either need to change the PUC  
4 system or change the way we do it.

5 I think there's a recognition in all the  
6 three entities involved in the Action Plan that  
7 this is a very high priority, and, as John  
8 suggested, working off a clean sheet of paper and  
9 deciding what the best way to do it would be would  
10 be helpful as we work towards a solution.

11 MR. KLOBERDANZ: Thank you. I just  
12 wanted to add that I am encouraged that there is  
13 dialogue going on at the agencies at this point.  
14 And keep up the good work.

15 COMMISSIONER BOYD: Thank you. Mr.  
16 Barry Flynn?

17 MR. FLYNN: Yes, sir, Commissioner Boyd  
18 and fellow Commissioners. My name is Barry Flynn,  
19 I'm a consultant, in principle with the consulting  
20 firm of Flynn RCI. I'm here today on behalf of a  
21 group of municipalities that are my clients. They  
22 have specific interest in transmission issues, and  
23 those are the issues I've been working on in their  
24 behalf.

25 The focus of my comments will be on

1 transmission planning. And let me just back up  
2 and say that the municipalities are the city of  
3 Alameda, the city of Palo Alto, the city of Santa  
4 Clara, and San Francisco.

5 First of all, I'd like to say that I  
6 haven't taken the time to consume all the material  
7 that's been put out on this subject by the staff.  
8 That which I have read and digested I find it was  
9 very well done, and I would just want to encourage  
10 you and your staff in your pursuit in the area of  
11 improving the transmission planning process in  
12 California.

13 I don't really have any major problems  
14 with the conclusions just addressed that the staff  
15 has come up with. It's sort of like one of those  
16 things when I read it I say "yeah, let's do it."  
17 How are you going to do it, you know?

18 When you disagree you want to debate the  
19 issue, when you agree you want to know how you're  
20 going to do this. That's really where some of my  
21 comments will go today, not taking issue with it.

22 I would rather be talking about it  
23 after I learn more about what they have in mind,  
24 but I thought I might start out the process this  
25 afternoon.

1           Before I hit a couple of specific areas,  
2 just to try to stay at the policy level just a  
3 little bit. I do agree with many of the statements  
4 made today, we do need some regulatory stability  
5 and greater cooperation between the California  
6 Energy Commission, the CPUC and the ISO in  
7 transmission planning. I haven't heard anybody  
8 disagree with that.

9           I also think we need a more transparent  
10 process. We need to balance the need to keep  
11 certain market information confidential with the  
12 need to provide transparency so that everyone can  
13 analyze the infrastructure needs and analyze the  
14 benefits to reducing the constraints that that  
15 transmission infrastructure now presents to the  
16 efficient flow of electricity throughout the state  
17 of California.

18           Those aren't new, they're just sort of  
19 embellishment of what the staff has already said.  
20 But to be more specific as to what the CEC might  
21 be able to contribute, I have a couple of ideas  
22 for your consideration. They're not original, but  
23 hopefully they can add to how we can get more  
24 specific about how the CEC can contribute to this  
25 planning process on a cooperative basis.

1           I believe the greatest area of  
2   contribution can be in the cost versus benefits  
3   side of the transmission justification issue.  
4   Under the ISO and the PTO's planning process the  
5   reliability part of the equation has gotten a lot  
6   of attention, and there could be improvements  
7   there I believe, but I believe the biggest  
8   contribution that the CEC staff and the Commission  
9   can do is really addressing that benefit side.

10           I got a flavor of talking about  
11   strategic benefits from the report that's been  
12   produced, by I don't have a real feel about how  
13   they're going to do it. But I do feel that, based  
14   on my knowledge of how competent the staff is,  
15   that they could make a major contribution in that  
16   area. And I'm just saying there's a dramatic  
17   need.

18           To put this in perspective, every year  
19   there is a plan that the PTO's develop that the  
20   ISO reviews that talk about what the reliability  
21   needs are. There's been a lot of discussion  
22   recently with regard to looking at the economic  
23   benefits and justification for transmission.

24           And the ISO has calculated, as part of  
25   the Path 15 proceeding, what it considered the

1   beneficial impact, from an economic standpoint, on  
2   the ratepayers of California. And they're also  
3   doing that now in the southwest as part of the  
4   step process that Mr. Kondolean referred to.

5               But there's not a systematic process to  
6   do that throughout the ISO control grid, and  
7   that's what should be done and that's where the  
8   CEC, I think, can make a major contribution.

9               Jumping back to the grid, I mean the  
10   reliability side of the equation, even though  
11   there's been a much more defined and comprehensive  
12   process going on in the reliability, basically the  
13   way you impact the amount of transmission that  
14   gets built for reliability needs is you basically  
15   change some assumptions with regard to the what  
16   the load is that you're trying to serve, or you  
17   change the assumptions in terms of the performance  
18   that the transmission and generation system have  
19   to meet without dropping load.

20              So one of the major areas of  
21   uncertainty, or risk, is identifying what those  
22   performance criteria are. I think that's  
23   currently the responsibility, and should probably  
24   maintain the responsibility, the ISO board of  
25   directors.

1           But I believe there are a lot of issues  
2 with regard to providing input to those criteria  
3 that would be helpful, and that the CEC staff  
4 could make a contribution to.

5           I am aware that in the past they've  
6 developed a model called the supply assessment  
7 model, that they've applied in a couple of  
8 instances to studying local reliability needs. I  
9 believe that's a specific area where the CEC can  
10 make a contribution.

11           In summary, we don't take any issue with  
12 regard to the recommendations so far in this area.  
13 We want just to focus more on how we go about  
14 accomplishing the goals that have been laid out.

15           And specifically, as I think a number of  
16 people have said, we applaud the Commission to try  
17 and work together with the other Commissions in  
18 the state of California in terms of improving that  
19 process.

20           Thank you for your time.

21           COMMISSIONER BOYD: Thank you very much.  
22 Any questions? Comments? Thank you very much for  
23 your testimony. Mr. Guliassi, I had noted you  
24 earlier in the day had said transmission, so I  
25 reshuffled your card in here.



1           MR. GULIASI: Thank you very much.  
2   Please let me commend the staff on this particular  
3   report. I think that their approach to the issues  
4   they raised and the recommendations they put  
5   forward make this report perhaps the best in class  
6   among a very fine set of reports.

7           And notwithstanding Chairman Keese's  
8   recommendations to focus greater attention to the  
9   relationship of these projects to the western  
10   grid, I still think this report stands out among  
11   the others.

12           I'm also encouraged by Commissioner  
13   Geesman's remarks in his recommendation to  
14   basically start with a blank sheet of paper and  
15   not be bound by the status quo in the transmission  
16   siting and planning processes, and I might add to  
17   that also the cost recovery and cost  
18   responsibility processes that preside at the PUC.

19           Let me be blunt. Let's face it, I think  
20   the transmission planning and siting process, and  
21   the cost recovery cost responsibility process at  
22   the PUC, including all the environmental reviews  
23   and the process that goes through the ISO, is one  
24   of the things that needs to be fixed the most.

25           And I think that maybe that's one of the

1 things you can draw attention to in your final  
2 report to the Governor.

3 While the staff limited itself to  
4 consideration of four specific projects that fit  
5 into their timeframe, I think all you have to do  
6 is look at the transmission cases that have been  
7 before the PUC over the last couple of years, in  
8 addition to the Jefferson-Martin project, as they  
9 pointed out, is in front of the PUC at the moment.

10 We've had some experience over the last  
11 couple of years with some other very large-scale  
12 transmission projects. And in every instance  
13 there have been problems that have surfaced in the  
14 transmission project at the PUC. I think of the  
15 Tri-Valley project, I think of the northeast San  
16 Jose project.

17 The PUC -- again, I want to be kind to  
18 them, just as Mr. Klobberdanz was -- a lot of work,  
19 not enough staff, perhaps not enough resources.  
20 But the fact of the matter is, if you look at the  
21 record, the PUC has not managed to stay on  
22 schedule with one of these transmission projects.

23 This is what I referred to earlier this  
24 morning. You can't do serious, effective planning  
25 just in time. These are projects that need a long

1 time horizon for planning and implementation. I  
2 understand that this Commission, and certainly the  
3 PUC, have to be mindful of the need for public  
4 participation, and oftentimes public participating  
5 means a slowdown in the process.

6 But we have some other models to look at  
7 and think about when we take out that blank sheet  
8 of paper and sharpen the pencil. This Commission  
9 has demonstrated that it is possible to plan and  
10 site facilities on time, on schedule.

11 Now perhaps what you did in the last  
12 couple of years was the product of a crisis, and I  
13 think it remains to be seen if, in a non-crisis  
14 setting, we can stick to time frames and actually  
15 get work done.

16 But this Commission has demonstrated,  
17 and has a track record now, of showing this state  
18 that planning can be done and siting can be done  
19 in a reasonable time frame, and you can get  
20 results. So I think when we take out that blank  
21 piece of paper we want to look at this Commission  
22 as a model, and think hard about what we might  
23 want to do.

24 And again, I'm mindful of the statutory  
25 and cultural and institutional constraints that

1 each agency is under. But I think we do have to  
2 start by suspending our believe about the status  
3 quo, and reshape, re-tool, re-engineer, whatever  
4 word you like, the transmission planning and cost  
5 recovery process.

6 I think that concludes my remarks. If  
7 there are any questions I 'd be happy to entertain  
8 them.

9 COMMISSIONER BOYD: Thank you.  
10 Commissioner Geesman?

11 COMMISSIONER GEESMAN: A question on  
12 cost recovery, Les. The projects you mentioned  
13 are also subject to a FERC tariff, aren't they?

14 MR. GULIASI: Yes.

15 COMMISSIONER GEESMAN: So hypothetically  
16 they recover their costs through the ISO grid  
17 management charge?

18 MR. GULIASI: That is correct, subject  
19 to FERC tariffs and so forth.

20 COMMISSIONER GEESMAN: Effectively, the  
21 economic regulation of these projects was  
22 federalized quite some time ago?

23 MR. GULIASI: Yes, it has been.  
24 Unfortunately, what comes out of the PUC, in  
25 addition to a certificate, a CPCN, we've had

1     unresolved cost recovery issues, where the  
2     Commission has, for example, imposed cost caps.

3             And has threatened to intervene in the  
4     FERC proceeding, essentially I suppose arguing  
5     that the FERC should not entitle the utility to  
6     recover all the prudent costs associated with  
7     building a transmission project.

8             And when I say commission, let me  
9     clarify. I mean the California Public Utilities  
10    Commission, not this Commission.

11            COMMISSIONER GEESMAN: Thank you.

12            COMMISSIONER BOYD: Questions? Thank  
13    you very much. I have Mo Beshir of LADWP?

14            MR. BESHIR: Good afternoon,  
15    Commissioners. I don't really have too many  
16    things to say, except for one I would like to  
17    commend the CEC staff for producing a superb  
18    document. I think it's really -- I know it's a  
19    lot of work.

20            In the Los Angeles Department of Water  
21    and Power we have been engaged in integrated  
22    resource planning process for many years, and I do  
23    know what purpose that serves. It's been serving  
24    us very well, and I hope will be used in the right  
25    way.

1           One comment I have is with the resource  
2   adequacy issue. I think I have talked about this  
3   before also. The municipal utility, especially  
4   like the Los Angeles Department of Water and  
5   Power, we do have resource adequacy requirements  
6   that come from our obligations to serve our  
7   residents and customers.

8           So we have that requirement. We do  
9   include it in our integrated resource planning,  
10   and I don't think that is a big issue for us.

11          But I do understand, reading through the  
12   reports and from the process, that kind of  
13   requirement is really needed for the IOU's and  
14   somebody has to be looking at the adequacy  
15   requirement issues, because that's really required  
16   to be able to serve your customers on a long-term  
17   basis. Thank you very much.

18          CHAIRPERSON KEESE: May I ask one  
19   question? Let's be more generic and talk about a  
20   broader set of municipalities. Basically you're  
21   saying that L.A. is fine, you have a resource  
22   adequacy standard that you meet, so you don't lean  
23   on the system?

24          MR. BESHIR: Correct.

25          CHAIRPERSON KEESE: Are there maybe

1 other municipals that may be leaning on the  
2 system?

3 MR. BESHIR: I'm not aware of any.

4 MR. BAKKER: Aren't you your own control  
5 area?

6 MR. BESHIR: We are our own control  
7 area. And I think IID is also their own control  
8 area. So we do have WSCC and their requirements,  
9 we do have to meet those on an ongoing basis.

10 And we do plan to meet all the planning  
11 standards, as well as the operating standards in  
12 the MORC, which is the Minimum Operating  
13 Reliability Criteria, under WSCC, so we do meet  
14 all those requirements and that's how we operate  
15 and plan our system.

16 And our integrated resource planning  
17 process, we do recognize our need and obligation  
18 to serve. So we do make appropriate assumptions  
19 in our forecast, appropriate assumptions in our  
20 reserve margins, and appropriate assumptions  
21 wherever we can find in our resources.

22 CHAIRPERSON KEESE: I guess, my question  
23 deals with, when we deal with the issue of  
24 resource adequacy, it seems to me if we restrict  
25 ourselves to delaying with resource adequacy in

1 the ISO area, we haven't handled what we're being  
2 requested to do for the state of California.

3 That we really have to decide, we have  
4 to look at a resource adequacy program for the  
5 whole state. Now that may mean that, with respect  
6 to LADWP territory, that we say they're more than  
7 adequate, and that's entered into the equation,  
8 but it seems to me we can't write the equation  
9 without involving an analysis of the munis, the  
10 irrigation districts, the rural co-ops.

11 We're going to have to somehow or other  
12 wrap them in, aren't we?

13 MR. BESHIR: In general, you're right I  
14 guess. From resource adequacy and general  
15 reliability consideration is really a regional  
16 issue, it's not really a California issue per se,  
17 it would be really a western interconnected system  
18 issue.

19 So we look at it from that perspective,  
20 and we try to meet all the WSCC requirements and  
21 MORC requirements as it comes. So that's how we  
22 look at it ourselves, we don't live on an island  
23 from reliability consideration.

24 I do see, from that perspective you  
25 could probably see the reliability of adequacy



1 issues in LADWP and other municipalities from that  
2 perspective, but there would not be a requirement  
3 from CEC I would suspect or somebody, as  
4 regulations required for say, LADWP to meet any  
5 additional adequacy requirements.

6 Because we already have adequacy  
7 requirement rules and regulations internal from  
8 our process, from our obligation to serve.

9 CHAIRPERSON KEESE: That's not where I  
10 was going. You know, as the Energy Commission, we  
11 sit up here many times and we realize we have no  
12 carrots and we have no sticks. So our regulatory  
13 authority is reasonably limited to the things the  
14 Legislature tells us to do.

15 But what they've asked us to do is give  
16 them an analysis here. And it seems to me the  
17 analysis cannot just set aside the muni's and say  
18 "they're doing fine, so we'll look at the rest of  
19 it." We have to -- and I sort of gathered from  
20 your testimony, by saying we're doing fine you  
21 don't have to deal with us.

22 I think we have to incorporate you in  
23 that. And if you have a surplus of 20 percent  
24 like you perhaps had, and helped out in the  
25 crisis, because you had excess, that should be

1 part of the equation. We're going to talk about  
2 resources in the northwest that California needs  
3 and resources in the southwest that California  
4 needs. Don't we have to incorporate 100 percent  
5 of the resources in California in this analysis?

6 MR. BESHIR: Yes. In fact we do have, as  
7 I say, this is really a regional issue, and that's  
8 how we would look at it. I would not, if a study  
9 would be done I guess to look at adequacy I would  
10 not, it would just be looking at California in an  
11 island situation.

12 It would be really an original issue.  
13 It would be LADPW, as well as everybody else,  
14 would be figured into that process. Well, part of  
15 the various support documents which were produced  
16 for this process deals with the adequacy issue as  
17 it relates to municipalities.

18 I think that's really an excellent  
19 discussion in that paper, how the municipalities  
20 have been able and been meeting their obligation,  
21 their portion of the equation, in a sense, from a  
22 reliability consideration. And we will continue  
23 to do that. And especially in the LADWP, being a  
24 control area, we do have the incentives, as well  
25 as the capabilities, to do those kind of things.

1 CHAIRPERSON KEESE: Thank you.

2 COMMISSIONER BOYD: Thank you. Mr.  
3 Kelly from Independent Energy Producers also asked  
4 to speak on this subject of transmission. Steven?

5 MR. KELLY: Thank you, Commissioner. I  
6 just wanted to follow up on some comments I've  
7 heard during the last 45 minutes of discussion,  
8 kind of feeding off Commissioner Geesman's comment  
9 about we'll have an open slate for this.

10 The process that I hear described  
11 earlier was one in which transmission planning  
12 would start at the ISO for reliability. And my  
13 presumption is that's going to take a year or so  
14 to get through that process, typically that seems  
15 to be what it's taking.

16 And then it would come over here for the  
17 IEPR process, which is going to take a year or so  
18 probably. And then would go to the PUC for CPCN,  
19 which will take a year or so. When I add the  
20 years up, I get at least five, possibly six years,  
21 just for the planning of a transmission line. And  
22 I just can't believe that is a good pattern or  
23 model that we should use.

24 I really think, in the vein of starting  
25 with an open slate here, we really need to look at

1 a way to make this more definitive and in a  
2 shorter time frame. And I feed off the San Diego  
3 comments. The importance is to have a decision  
4 that is pretty stable and final.

5 And it can't be one that takes five or  
6 six years to decide to go forward with  
7 construction, which is going to take another --  
8 depending on the size of the project -- multiple  
9 years. We need to bring that down into a context  
10 that works better.

11 And I just urge you to think that  
12 through. Multiple venues provide multiple  
13 opportunities for everybody to change the project,  
14 so that anybody's previous analysis is irrelevant  
15 then, and that won't work.

16 So I just want to urge you in your  
17 recommendations and study on this, is we need to  
18 think of a way to bring this in and make it more  
19 helpful to folks. Because the marketplace has to  
20 respond to final decisions, otherwise it's chaotic  
21 again. So that's my comment.

22 COMMISSIONER BOYD: So your clean sheet  
23 of paper is not five years old?

24 MR. KELLY: No. And I mentioned in my  
25 comments this morning that I thought that one

1 agency doing siting is perhaps the model that  
2 might be more effective. And based on what I've  
3 heard I continue to think that, because I think  
4 one agency can get a decision out the door in a  
5 year or so.

6 And that may require legislation, that's  
7 something we have to think about and work through.  
8 But dispersing it across multiple entities, each  
9 doing its own little piece, I think will be the  
10 path to failure.

11 COMMISSIONER BOYD: Do you have any  
12 comments or questions? Thank you, Steve. Now I'm  
13 going to circle back to our two remaining  
14 speakers, who had some issues off of transmission  
15 and some of the things we talked about earlier.  
16 First, gas issues. Eric Eisenman of PG&E gas  
17 transportation systems.

18 MR. EISENMAN: Good afternoon,  
19 Commissioners. I'm representing PG&E gas  
20 transmission northwest and north Baja pipeline.  
21 The former is the pipeline that runs from Canada  
22 to California, and the latter, north Baja, runs  
23 from the end of the El Paso system at Ehrenberg,  
24 and serves generation in Mexico.

25 And now we are involved in the LNG

1 discussion, as Mr. Hampton described, to switch  
2 around that north Baja system and for it to become  
3 a west to east pipeline.

4 I appeared two months ago at a hearing  
5 dealing with the staff's draft natural gas market  
6 assessment. I filed testimony then and made some  
7 comments. In the staff's natural gas market  
8 assessment that was issued recently, the final  
9 document, many of the same questions are there,  
10 and I would refer you back to that testimony.  
11 I won't repeat it today, but I think what I said  
12 then still goes.

13 One thing I see in the main report was  
14 the statement that there is declining output from  
15 several gas producing basins in the lower 48  
16 states. That's a long-term concern of this  
17 Commission, and very well should be. And it's not  
18 just of this Commission, but it's of everyone.

19 But the market is responding, and that's  
20 what we're seeing with the LNG development. And I  
21 would agree very much with Mr. Pak' statement this  
22 morning that your report to the Legislature should  
23 emphasize a scenario that has LNG on the west  
24 coast by 2007.

25 To me it's not an if anymore, it's a

1     when, and the when is probably around 2007.  
2     Whether you call it a base case or a supplemental  
3     base case or whatever, we really think it is going  
4     to happen.

5             I want to pass out a table here. I'm  
6     not here representing any of the potential LNG  
7     projects, rather kind of the pipeline that can  
8     move gas for all of them. And I think I have  
9     enough copies for everyone in the room.

10            And what I've done here is list all the  
11    proposed projects, including the two we've heard  
12    from earlier, and just some general factoids about  
13    them, as far as their capacity and project  
14    features, and their permitting status. And the  
15    permitting status is ongoing, there's been a lot  
16    of progress made.

17            It's a little complicated with the  
18    Mexican agencies. And I do believe this is up to  
19    date, we've made our best efforts here to have all  
20    our information correct. I would note that  
21    Chevron is not here today, at least to my  
22    knowledge they're not here. That particular  
23    facility would be offshore, and then with a  
24    pipeline moving it onshore.

25            I won't go through all the detail here,

1 I think it's all self-explanatory. And we will  
2 keep the staff in the loop as the data here  
3 changes over the coming months.

4 We do have an ongoing open season.  
5 We've changed the dates a few times as far as when  
6 bids are due and requests for service. We've been  
7 working with CRE, the Mexican regulatory agency  
8 that has jurisdiction over the Mexican piece of  
9 pipe that's owned by Semptra. We own the U.S.  
10 piece of pipe.

11 But we are managing the open seas on  
12 behalf of both companies. So as of right now the  
13 requests for service are due on September 15th.  
14 We think that it's not going to change again.  
15 When I was here a couple of months ago I gave you  
16 a date in July when those requests were due.  
17 We've had to move that.

18 We'll then kind of go through an  
19 engineering process to look at exactly what we  
20 have to do, and by next January with the potential  
21 developers get to binding, firm transportation  
22 precedent agreements. On north Baja we'll  
23 eventually need to go to FERC. The Baja Norte,  
24 the Semptra entity, will need to go to the Mexican  
25 regulator, but we think it's very realistic that



1 gas will be flowing by 2007.

2 With respect to the FERC certification  
3 process, whether it's for north Baja or the  
4 pipeline for Canada, it is a certification process  
5 that has worked and is working. Not just under  
6 the Pat Wood regime, but even going back the last  
7 ten years.

8 It's a very detailed process, but you  
9 don't hear the whining about certificating a gas  
10 transmission line like you do an electric  
11 transmission line, and as you look at what the  
12 best way is for licensing electric transmission  
13 I'd really urge you to take a look at how FERC has  
14 done it for gas pipes.

15 There are some differences of course,  
16 the physics and engineering are different. But  
17 there are a lot of similarities. Our system has  
18 expanded several times. From Canada to north Baja  
19 certification over the last couple of years. It  
20 had some hiccups, but it went pretty smoothly.  
21 Kern River has had a number of increments, and  
22 it's worked. And I really urge you to take a look  
23 at that.

24 There are some statements in the report  
25 from staff concerning demand for gas in the

1 southwest and how is that affecting California,  
2 and gas being taken off the El Paso system. LNG  
3 will meet some of that demand, I think we heard  
4 that earlier from Mr. Hampton.

5 Discussions are ongoing with markets,  
6 generators, the utilities, in Arizona and in  
7 Nevada. So I think some of that concern that we  
8 see in the report will be alleviated once LNG  
9 supplies are flowing.

10 I would also note the Arizona  
11 Corporation Commission has an inquiry going on  
12 natural gas infrastructure, and of course they're  
13 very concerned that California is stealing their  
14 gas off the El Paso system.

15 And there's been a big battle between  
16 the two states that many of us have tried to stay  
17 out of, but it's something you should monitor as  
18 to what a neighboring state is doing. They are  
19 having a hearing on September 10th to look at all  
20 infrastructure -- pipeline, storage and so on. So  
21 it's very analogous to the gas piece that you're  
22 doing in this process.

23 This morning we heard some comments  
24 about commitments needed to build generation.

25 Well, there's no such thing as a merchant

1 pipeline. I mean, I don't think there ever has  
2 been or there ever will be. Pipelines don't build  
3 without contract commitments themselves.

4 How long do they have to be? Well, it  
5 kind of depends, you know. The bigger it is, the  
6 longer it has to be. I would agree with Mr.  
7 Hampton that the more liquidity there is the more  
8 comfortable we're going to be just generally  
9 speaking.

10 Back when the pipeline from Canada went  
11 through a major expansion ten years ago, most of  
12 the contracts were for 30 years. Southern  
13 California Edison signed one, there's others in  
14 this room that signed one. Those have 20 years  
15 and three months to go. That's a long, long time.

16 We don't have any fantasy about getting  
17 contracts of that length again, but certainly the  
18 ten years that we've heard for generation is a  
19 nice round number. If it's a smaller project, it  
20 could probably be quite a few years less. If it's  
21 a big huge project it's something we would have to  
22 look at. It would probably have to be at least ten  
23 and maybe a little bit linger.

24 And certainly if you look at generators  
25 who might be signing up on pipelines, we're going

1 to look behind them. And if we see they have  
2 market commitments for ten years that's going to  
3 get our managers, our lenders, a lot more comfort.

4 So I would urge you to be mindful that,  
5 when you're talking about contract commitments for  
6 energy infrastructure that generation is not  
7 unique. It fits with interstate pipelines as  
8 well.

9 I would also, without too much further  
10 comment, say that the access into the SoCal Gas  
11 and the San Diego Gas and Electric systems is  
12 going to be important, as the LNG developers move  
13 forward.

14 And that concludes my comments for  
15 today.

16 COMMISSIONER BOYD: Thank you.  
17 Questions? Chairman Keese.

18 CHAIRPERSON KEESE: A quick question.  
19 Remind me what the current capacity of Baja is?

20 MR. EISENMAN: it's about 500 as I  
21 remember.

22 CHAIRPERSON KEESE: And in your open  
23 season, are you talking about a capacity moving  
24 east?

25 MR. EISENMAN: Yes. If we believe it's

1 something greater than 500 then it's pretty easy  
2 expansions of it. Most of that work would  
3 probably be done in Mexico, so it would be on the  
4 Baja Norte system, owned by Semptra.

5 CHAIRPERSON KEESE: But that, I guess --  
6 let me ask. If there were two terminals built in  
7 Baja at two billion a day, are you going to handle  
8 that through North Baja?

9 MR. EISENMAN: If they are commitments,  
10 yes. It can be done. We've got the right-of-  
11 ways. I certainly don't see anything like two  
12 BCF. I don't think that's a reasonable --

13 CHAIRPERSON KEESE: So most likely part  
14 of it would float that way, and part of it would  
15 go into San Diego.

16 MR. EISENMAN: Correct.

17 CHAIRPERSON KEESE: Or stay in Mexico,  
18 and be used for generation in Mexico?

19 MR. EISENMAN: Right. In the Rosarito  
20 area, and also in the Mexicali area, Semptra has  
21 the plant that's now operating, as does Energen  
22 have a plant that's operating. And that gas is  
23 now being served by North Baja, off El Paso. That  
24 would also switch around.

25 CHAIRPERSON KEESE: Thank you. Any

1 other questions or comments? A comment I'd like  
2 to make less too many people in the audience think  
3 we sit here in splendid isolation.

4 We have actually been following gas  
5 pretty closely, for the pst couple of years. Even  
6 before I came to the Commission we were carefully  
7 following the gas situation in California and the  
8 United States. And actually have had very  
9 pleasant discussions with Pat Woods and the staff  
10 of this Commission, and the staff of FERC actually  
11 have been working together quite a long time.

12 Let's just say it hasn't been politic to  
13 throw bouquets to Mr. Wood on the subject of gas  
14 visavis the other issues we face, but we have a  
15 pretty good idea of what they do and how they do  
16 it at FERC in the gas area, and we have actually  
17 quietly been facilitating each other's review of  
18 things.

19 So I feel pretty good about that part of  
20 the regulatory process, lest you think we sit  
21 here, as I said, in splendid isolation. A little  
22 tidbit, anyway, for folks working together. And  
23 let me just go on to say that I also work with the  
24 Board of Governors on the subject of energy, and  
25 LNG in Mexico was the key subject of our recent

1 annual meeting here a few weeks ago.

2 And while I'm the Chairman of the U.S.  
3 Governor's, of the energy work table, the new  
4 governor from Mexico is from Baja, so I expect  
5 we'll be talking about a lot of LNG issues over  
6 the next year.

7 So we're trying to follow you all as best  
8 we can. And your list looks very accurate. All  
9 right. Mr. Mark Skowronski.

10 MR. SKOWRONSKI: Good afternoon,  
11 Commissioners. Before I commence I too would like  
12 to add kudos to the staff. I think it' an  
13 outstanding compilation, collation and  
14 interpretation of voluminous facts, information  
15 and figures. You guys have good people working  
16 for you.

17 However, having said that, I'd like to  
18 make comments on two items. Number one is fuel  
19 diversity. I think fuel diversity is a very  
20 important concept, very important attribute that  
21 is of value to the people and to the ratepayers.

22 The concept of fuel diversity is rarely  
23 quantified. We talk about it, but we really don't  
24 put a value on it. If you don't put a value on an  
25 attribute it basically is not there.

1           I think an analogous situation would be  
2   having all the generation assets, the bulk of the  
3   generation assets, owned by a single individual or  
4   company, and common sense tells us that's not a  
5   very good idea. But basically we're a single fuel  
6   state, where the bulk of the assets are basically  
7   powered by natural gas.

8           I would urge the Commission to delve a  
9   little bit deeper, and perhaps try to quantify the  
10   concept of fuel diversity. Senate Bill 1078, that  
11   was a driving factor, but again there is not  
12   quantification.

13           In the report it rates a topic in the  
14   agenda, but there's only three sentences relegated  
15   to fuel diversity, and I think we could expand on  
16   that a little bit.

17           The second item is societal effects or  
18   impacts. Again, from a renewable standpoint, I've  
19   been in the renewable business for about 20 years.  
20   It's something you always run up the flagpole and  
21   people say "great, this is keeping jobs in  
22   California."

23           If you build a 500 megawatt combined  
24   cycle you're talking about a \$600 million capital  
25   expenditure. If you build a 500 megawatt solar or



1 geothermal or biomass, you're talking usually in  
2 the multi billions of dollars.

3 And the construction jobs are up three  
4 or four times compared to combined cycle. The  
5 price increase, of course, is because you're  
6 amortizing or capitalizing the fuel, and you're  
7 not exporting dollars to Texas, you're not  
8 exporting dollars to Canada.

9 This has value. And while the report  
10 does discuss the number of jobs it doesn't  
11 differentiate between technologies. And this  
12 report, this effort on the IEP I think would be an  
13 appropriate vehicle to try and ascertain and try  
14 to determine a quantified value, both for fuel  
15 diversity, and also for the societal impacts that  
16 are good for renewable energy. Thank you very  
17 much.

18 COMMISSIONER BOYD: Thank you.  
19 Comments? Questions? Okay, thank you very much.  
20 i have no more blue cards, indicating I don't know  
21 anyone who would like to address the group. I  
22 have one question for Mr. Pak, but I'll save that.

23 First to see if there's anyone in the  
24 audience who didn't get a chance to speak and  
25 would like to do so, or wants to circle back to

1 some item that we talked about?

2 Well, okay, Mr. Pak, can I ask you a  
3 question kind of following on the discussion about  
4 LNG and Mr. Hampton's presentation. I asked him  
5 about Alaskan LNG, and he gave us his opinion  
6 about north slope gas becoming LNG and its  
7 viewpoint in the market.

8 But I happen to know, from being in  
9 Alaska recently at a meeting that the folks up  
10 there called, that Sempra happened to be there and  
11 seemed very interested in Alaska LNG. In fact, I  
12 read in the press that you're seriously talking  
13 contractual arrangements with some of the folks  
14 proposing LNG.

15 And I just wondered what you could  
16 discuss publicly are your views on that subject.  
17 I kind of like buying commodities from other  
18 states, so Alaska LNG's make sense to me. And I  
19 can't speak for other Commissioners, but I'm  
20 keenly interested in LNG.

21 I'm selfish, I want gas for California,  
22 I don't care if it comes by land or by sea, so I'm  
23 looking at everything at the moment.

24 MR. PAK: As Sempra has developed the  
25 Costa Azul project, when we were originally

1     partnered with CMS I think there was a lot of  
2     enthusiasm that the project could go forward, but  
3     as CMS fell out of the project there was some  
4     concern whether Semptra, who is, if you take a look  
5     at the people on the list that Mr. Eisenman laid  
6     out -- Shell, Chevron, Texaco, Conoco, Phillips --  
7     these are companies that are several orders of  
8     magnitude larger than us, and there was a lot of  
9     speculation as to whether Semptra could continue to  
10    go forward.

11           Being the furthest along in the  
12    permitting process in Mexico, and there are  
13    several, all of independent and equal importance.  
14    Being the first along in all of the processes,  
15    having captured the three critical permits, we  
16    sort of find ourselves sort of in the role of the  
17    emerging prom queen, and everyone has come to talk  
18    to us about delivery of their supplies into our  
19    facility.

20           The Alaskans have visited Semptra, they  
21    do seem committed to making supplies available in  
22    a time frame consistent with the development and  
23    operation of our facility. We have not yet  
24    selected who will be the supplier for that portion  
25    of the terminal that we're going to retain under

1     our control.

2             At this point I can't say that they are  
3     the furthest along. I think we have a lot of  
4     doubts, and Mr. Hampton has laid some of those  
5     out, as to whether they can actually deliver in  
6     the time frames that are consistent with our  
7     project, and in the quantities that are consistent  
8     with our project, as well as the cost.

9             However, as I understand it, the  
10    Governor has made the delivery of LNG to the west  
11    coast a priority project for his staff and his  
12    agencies. In that light we're certainly open to  
13    talking to them.

14            Those talks continue, but at the present  
15    time I can't say that we would, they would be in  
16    first place-- they may not be in last place -- but  
17    I think there is, as Mr. Hampton pointed out,  
18    considerable doubt as to whether they could  
19    actually accomplish what they have set out to  
20    accomplish.

21            COMMISSIONER BOYD: I appreciate that.  
22    Let me ask you one thing more about your project,  
23    since the question of long-term contracts has  
24    entered the discussion here several times, and the  
25    historical need for projects like this for long-

1 term contracts, for the financing.

2 In my mind, if I'm not mistaken, your  
3 project is rather novel, I mean it's almost rent  
4 to own. You're building a facility, you're  
5 looking for people to run gas through it, and  
6 you're not looking for long-term contracts,  
7 necessarily. And you've been able to finance your  
8 facility.

9 MR. PAK: That's right. Because of  
10 Sempra's history and the scope of our business,  
11 we're not a full value chain LNG developer or  
12 producer. We have a somewhat different business  
13 model than you might see from a Shell or a  
14 Marathon or a Conoco Phillips.

15 We see ourselves as infrastructure  
16 developers. And with respect to LNG projects, the  
17 developer is a strategic infrastructure. We  
18 facilitate the movement and arrangement, supply  
19 and purchase agreements, between upstream  
20 developers and markets.

21 We will participate to some extent on  
22 both ends of that chain, but we're not fully  
23 invested beyond the terminal itself.

24 So, in terms of the contracts that we  
25 would like to see, I think we are looking for

1 longer term agreements. One of the things that  
2 has come up -- and I think this applies equally to  
3 electricity as it does to the gas markets --  
4 liquidity is awfully important.

5 Not just because it means that in the  
6 event of one of our purchasers or users of the  
7 terminal doesn't take full supply or doesn't  
8 utilize the full extent of the capacity they've  
9 committed to, but it allows people who do make  
10 commitments to lay off the capacity that they've  
11 -- or the supplies that they've engaged.

12 So, to that extent there is a very  
13 direct tradeoff between the length of contracts  
14 that you'd like to see and the vibrancy of a spot  
15 market. So on the electric side we are looking  
16 for ten year capacity agreements, because the spot  
17 market in electricity in California is relatively  
18 thin and illiquid.

19 On the gas side we see the potential for  
20 greater liquidity than we're currently seeing in  
21 the electricity market. So we will consider  
22 shorter term agreements.

23 But because of the business model we're  
24 running, we're somewhat saying what about getting  
25 longer term contracts, and longer term

1 commitments, than I think you've heard from the  
2 others.

3 COMMISSIONER BOYD: Thank you very much.

4 I would just note that I think the Governor of  
5 Alaska has himself in a tough position. As  
6 Senator he much favored the on-land route for gas  
7 pipeline, and is very much aligned with the  
8 companies who favor that.

9 As Governor, he's faced with a 68  
10 percent vote from the people of Alaska to create  
11 an LNG authority, and created a bond issue of an  
12 incredible amount of money to facilitate that  
13 process. So they have a lot going for them, and  
14 it makes it rather fascinating.

15 And they thought so much of the project  
16 that, not at California taxpayers expense, they  
17 asked to talk to some of us. It's kind of  
18 interesting. Anyway, I'm just killing time here.  
19 I have no more blue cards. No more hands in the  
20 audience. Time is up. We're not quite going to  
21 make it to 3:00.

22 I want to thank the staff, Karen Griffin  
23 in particular, for all the work that they put into  
24 this, I don't know, 20 pound monster I've been  
25 carrying around for a few days. We will be back

1 here tomorrow morning for the second day of this  
2 announced two day hearing.

3 I'm not sure anyone else will be here  
4 tomorrow, but we will be here to receive those  
5 people who indicated they wanted to testify on the  
6 second day. So I thank you all. Thank you very  
7 much for your testimony. There was really good,  
8 frank remarks today, and we'll see you in the  
9 future.

10 (Thereupon, at 2;55 p.m. the workshop was  
11 adjourned.)

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